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Arab Bank Group

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Arab Bank Group

Major Rating Factors

Strengths:

- Superior geographic diversification
- Robust capitalization
- Strong liquidity
- Solid track record of good asset quality

Weaknesses:

- Increasing contractual maturity mismatches
- Exposures to challenging operating environments in high-risk countries
- Potential legal risks

Counterparty Credit Rating
None

Rationale

The 'A-/A-2' ratings on several operating entities of Arab Bank Group--namely Europe Arab Bank PLC; Arab Bank Australia Ltd.; and Arab Bank PLC branches in Bahrain, Dubai, Qatar, and Singapore--reflect the group's superior geographic diversification, robust capitalization, strong liquidity, and good asset quality. Offsetting these factors are the group's increasing contractual maturity mismatches, exposure to challenging operating environments in high-risk countries, and potential legal risks.

The lower ratings on the main entity of the group, Arab Bank PLC (BBB/Stable/A-3), which also benefit from the group's strengths, are due to its incorporation and operations in the Hashemite Kingdom of Jordan (foreign currency BB/Stable/B, local currency BBB/Stable/A-3), where the bank is subject to sovereign risk. The ratings on Arab Bank Australia and Europe Arab Bank reflect their core status within the group, which justifies the equalization of their ratings with those on other operating entities of the group outside Jordan. Arab Bank Group--referred to subsequently as AB--includes not only Arab Bank PLC, but also the main entity's subsidiaries and affiliates and sister company Arab Bank Switzerland.

With an equity base of \$7.1 billion on Sept. 30, 2008, AB is one of the largest banking groups in the Middle East. Operating in 29 countries across five continents, it is also the most diversified. AB deploys about 20% of its assets in Jordan, where its headquarters are based. Such a profile is unique in the Middle East and justifies our higher ratings on some overseas entities of AB.

The group displays strong financial ratios across the board. Thanks to tight risk management, nonperforming loan (NPL) ratios have been kept under control and stood at 2.5% on Sept. 30, 2008. This figure is slightly higher than at year-end 2007 because of the acquisition and consolidation of Libya-based Wahda Bank (WB; not rated). The group's capitalization is robust, with a ratio of adjusted total equity to adjusted assets of 12.3% on Sept. 30, 2008. Standard & Poor's Ratings Services expects capital ratios to continue to decline gradually alongside planned growth. On a positive note, we expect dividend policy to remain conservative. AB's liquidity is very strong. The group's policy is to prioritize liquidity over profitability, which is just adequate. With the current gradual shift toward an incremental increase in loan leverage, however, profitability is set to further improve.

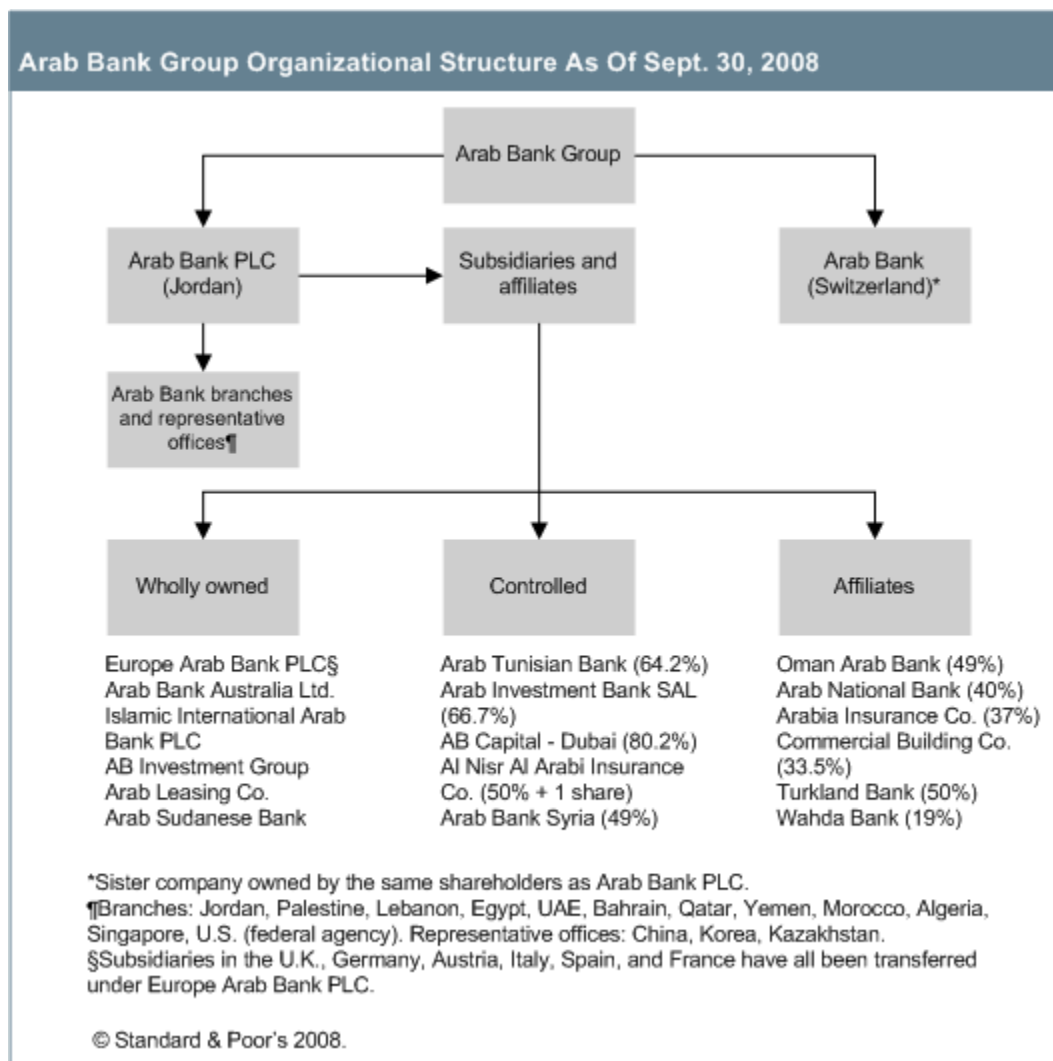
A named defendant in several lawsuits, AB faces a degree of legal risk. The related risks are difficult to assess for the time being, but the bank believes itself to be in a position of strength.

Outlook

The stable outlook reflects our expectation that AB will remain the Middle East's leading financial institution in terms of diversification and that the group's strategy will remain conservative and well executed. We also expect liquidity to remain strong despite an increased appetite for lending. We could raise the ratings if legal risk ends with the bank maintaining the same strong financial profile. Conversely, we could lower the ratings if loan leverage increases faster than we expect; if asset quality, closely linked to the bank's widespread country risk, deteriorates; if international expansion is more aggressive than we expect and leads to a deterioration of capitalization; or if legal or reputation risks materialize.

Profile: The Most Diversified Financial Group In The Middle East

AB is one of the largest financial groups in the Middle East with total consolidated assets of \$46.3 billion on Sept. 30, 2008. About 80% of the bank's assets are held outside Jordan, underpinning the higher ratings on Arab Bank PLC than on its sovereign. The group is structured as follows:



AB is by far the most diversified financial group of the Middle East and among the most sophisticated. It was established in 1930 by the Shoman family in Jerusalem. The bank and group have successfully weathered the numerous crises that have shaken the region since then. The headquarters were moved in 1948 to Jordan, and customers have always considered the bank a safe haven.

Arab Bank faces some legal risks that are difficult to assess with a fair degree of precision. The bank is a defendant in material U.S. litigation but so far has not suffered from reputation risk. Proceedings are still pending, making it difficult to estimate the potential direct or indirect impact on the bank. AB believes itself in a position of strength, however. Standard & Poor's does not expect potential legal claims or liability arising from the case to jeopardize the bank's capital position.

Support And Ownership: Committed Shareholders

AB has a diversified shareholding structure, dominated by four groups of investors: the Hariri family of Lebanon (20.7%), the founding Shoman family (4.9%), the Jordanian Social Security Corp. (14.9%), and the Saudi Ministry

of Finance and National Economy (4.5%). The remaining shares are publicly traded on the Amman Stock Exchange, where Arab Bank is listed. More than 20,000 investors own shares in the bank. The four groups of strategic shareholders are committed to the bank, underpinning its strong financial flexibility. This was demonstrated in 2006 through a rights issue for a total capital increase of \$1.5 billion. The shareholding structure has been very stable over the past decade. Standard & Poor's sees the financial flexibility of the group as a positive factor. The ratings on the group reflect its stand-alone credit quality, and do not include any uplift for extraordinary external support.

Strategy: Coherent, Achievable, And Rigorously Implemented

Standard & Poor's regards AB's strategy as coherent, achievable, and rigorously implemented. The main strategic objectives include:

- Prioritize liquidity over profitability and keep at least 25% of total assets in liquid forms;
- Gradually increase the group's loan leverage;
- Further expand in the Middle East and North Africa at a slower pace than in the past because of the global financial crisis; and
- Further diversify the group's portfolio of business lines, especially retail banking, bancassurance, investment banking, and private banking.

To achieve its long-term objective of being the bank of choice for economic activity in the Arab world, AB has been rigorously deploying a series of key initiatives, including:

- A streamlined centralized group organization built along five strategic business lines;
- Strengthened human resources and operational capabilities, following active hiring of high-caliber senior officers in key positions;
- Enhanced capacity to deliver quality services; and
- Several strategic acquisitions in targeted markets (Turkey and Libya) or new business lines such as bancassurance.

In the first half of 2008, Arab Bank acquired 19% of Libya-based WB with an option to go up to 51% within five years. The bank assumed the management of this newly acquired subsidiary. Standard & Poor's expects Arab Bank to continue growing its presence in Arab countries, especially in North Africa, mainly on an organic basis.

Risk Profile And Management: Low Appetite For Risk, Conservative Risk Management, And Strong Risk Culture

AB's risk profile is dominated by credit risk through its operations in several risky countries. This is mitigated, however, by the bank's strong track record in keeping asset quality under control, conservative risk appetite and approach toward growth, as well as strong enterprise risk management (ERM). AB's funding profile remains dominated by deposits with short contractual maturity. This risk is mitigated by the relatively high stability of deposits across the cycles and the bank's recourse to wholesale funding sources. AB is perceived by its customers as a safe haven.

Enterprise risk management: Strong

AB's ERM is strong in Standard & Poor's opinion. The risk management architecture has been enhanced in the past few years to prepare for growth and diversification. AB has established a separate risk management function.

Policies for risk measurement and mitigation are approved by the group risk management committee, chaired by the CEO, and documented by the group risk management unit. ERM tools are well developed and being further refined.

AB's risk governance architecture is based on a solid risk culture across business lines. All business units have policies and procedures to monitor their own exposures. The group compliance team reports compliance issues directly to the CEO. The group internal audit team handles regular risk-based audit missions, with comprehensive reporting to the board's audit committee. The risk culture across the organization appears solid. Management's conservative approach and heavy controls are in line with the board's low risk appetite. New acquisitions bring to AB additional exposures to credit and operational risks. On a positive note, AB either assumes the effective management of the newly acquired subsidiaries or is heavily involved in strategic decisions. In addition, AB has a strong track record in developing and managing its business internationally.

Credit risk: The underwriting culture mitigates the group's operations in several risky countries

AB has conservative credit policies. Loan leverage is low but increasing, along with the bank's objective to enhance profitability. Loan leverage stood at 51.8% on Sept. 30, 2008, up from 44.9% at year-end 2006. The bank bases credit approval on a set of policies and limits approved by the board of directors, and consistently uses internal ratings and scoring techniques to ensure that loan portfolio growth is compliant with the risk appetite of the board. This sturdy architecture mitigates the group's operations in several risky countries and underpins good asset quality indicators. The bank's ratio of NPLs to total loans increased slightly in the first half of 2008 following the acquisition and the consolidation of WB. It stood at a good 2.5% on Sept. 30, 2008, however. NPLs coverage by provisions stood also at a satisfactory 105.3% at the same date. The cascading effect of the global financial crisis on real economic activity is a source of risk for AB on a par with that for peers. If economic conditions worsen in countries where the bank has significant operations, asset quality indicators could deteriorate. This is not our base case scenario, though.

AB's portfolio diversification remains above average and the group's exposure to real estate and construction sectors (21.1% of total loans on Sept. 30, 2008), although a source of risk in the Middle Eastern context, remains manageable and tightly supervised. In addition, AB primarily targets top corporates operating in this sector. AB's credit portfolio enjoys strong single-name and geographic diversification. The 20-largest funded and unfunded exposures accounted for about three quarters of the bank's reported equity on Sept. 30, 2008--with a good balance between the two. The retail portfolio represents less than 15% of overall credit exposures at the group level, leaving room to grow the retail franchise and further enhance portfolio granularity.

AB's investment portfolio includes some exposure to non-investment-grade Middle Eastern and North African government bonds totaling \$2.4 billion. This portfolio is mainly held in countries where government bonds represent the most liquid and safest investment vehicle, however.

Market risk: Limited and under control

Direct exposure to stock market volatility is relatively limited because AB's trading book is dominated by treasury and corporate bonds. Stocks represented about 7% of the bank's reported equity on Sept. 30, 2008. Although foreign currency risk is material because the group operates in 29 countries, AB typically runs limited open positions in the main international currencies. The global limit for open foreign currency positions stood at \$300 million on a

gross basis, without taking into account the peg of certain currencies with the U.S. dollar. On a net basis, AB's total open position stood at \$4.9 million on Sept. 30, 2008. Structural foreign exchange risk, resulting from the bank's operation in several countries, is not managed by the group, however.

Interest rate risk exposure is manageable and monitored regularly. Net interest income reacts negatively to increasing interest rates, with a net basis point value of less than a negative \$800,000 on Sept. 30, 2008. That's because the bank carries some fixed-rate bonds and liabilities (predominantly with short contractual maturity) that reprice quicker than assets. A widening of spreads resulted in a decline in the bank's revaluation reserves and a net fair value loss in the first nine months of 2008. AB reclassified some of its investments to "held to maturity" from "available for sale" as these are mainly plain-vanilla bonds issued by highly rated international financial institutions and that the bank intends to hold until maturity.

Funding and liquidity risk: Liquidity is very strong but contractual maturity mismatches are high

AB enjoys strong liquidity with more than 27% of total assets placed in liquid (cash and interbank deposits) forms over the past three years. In addition, the securities portfolio is dominated by highly rated plain-vanilla bonds and government securities that the bank can easily liquidate in case of need. Loan growth is set to slow in the future--compared with that of the past couple of years--given uncertainties surrounding global economic growth. In addition, AB intends to keep at least 25% of its assets in liquid forms. The bank's ratio of loans to deposits remains very comfortable--78% on Sept. 30, 2008, suggesting that AB still has room to leverage its balance sheet.

AB's funding profile is deposit-based and by nature contractually short-term. Nevertheless, deposits have been very stable, as well as somewhat countercyclical. AB is perceived by its customers as a safe haven. The bank benefits from flight to quality in times of stress. In 2007, the group issued a \$500 million syndicated term loan through Arab Bank PLC to diversify its funding mix.

Accounting: IFRS Applied Consistently Since 1991

The group's financial statements are represented in the tables at the end of this analysis. The group includes Arab Bank PLC, its wholly owned and majority-owned subsidiaries (fully consolidated), its minority-owned affiliates (accounted for under the equity method), as well as Arab Bank PLC's sister company, Arab Bank Switzerland. The group has been applying IFRS since 1991. Financial statements have never been qualified. Disclosure is in line with international standards.

Profitability: Adequate

AB's profitability is just adequate, with a ratio of core earnings to total assets of 2.1% in the first nine months of 2008. Profitability is set to at least stabilize or further improve in the near future owing to:

- The shift in the bank's strategy toward more leverage;
- A higher interest margin;
- Improving efficiency along with the bank's objective to cut costs;
- Low cost of risk; and
- Strong financial performance of major unconsolidated subsidiaries--especially in Saudi Arabia, where the bank controls 40% of Arab National Bank (A/Stable/A-1).

AB's financial performance could deteriorate if ANB records weaker financial performance than in the past, given the high contribution of this subsidiary to the bank's bottom line. This is not our base case scenario, though.

AB has no exposure to structured investment products. The bank's exposure to stock markets remains manageable. The cascading effect of the global financial crisis on real economic activity could hurt the bank's profitability in two different ways:

- In weakening trade and business between developed countries and the emerging Arab world, which could reduce business inflow for AB; and
- Through deterioration in asset quality that would require additional provisioning for the group's subsidiaries.

We expect these two effects to be limited under our base case scenario, though. In addition, AB's stringent control over costs is set to help the bank sustain its financial performance. Income diversification is poised to improve further along with the bank's objective to enhance cross selling and to focus on fee-rich business lines such as private banking, investment banking, and bancassurance.

Capital: Strong And Of High Quality

With a ratio of ATE to adjusted assets of 12.3% on Sept. 30, 2008, AB's capitalization is strong in light of the bank's business profile and superior geographic diversification. The bank plans to keep the same conservative dividend payout. AB's financial flexibility is also strong and was demonstrated through a capital hike of \$1.5 billion in 2006. The bank intends to keep a regulatory capital ratio of at least 15% under Basel II. On Sept. 30, 2008, the bank's capital adequacy ratio was 15.1%--excluding interim profit--compared with 18.2% under Basel I. The quality of capital is also high, as it is almost entirely made up of Tier 1 equity.

Table 1

Arab Bank Group Balance Sheet Statistics												
(Mil. \$)	--Year ended Dec. 31--						Breakdown as a % of assets (adj.)					
	2008*	2007	2006	2005	2004	2003	2008*	2007	2006	2005	2004	2003
Assets												
Cash and money market instruments	12,897	9,452	9,546	8,295	8,502	8,443	27.97	24.66	29.40	30.18	31.04	34.40
Securities	6,800	6,799	6,235	5,684	6,697	4,885	14.75	17.74	19.20	20.68	24.45	19.90
Trading securities (marked to market)	1,423	1,687	2,009	1,368	1,449	1,074	3.09	4.40	6.19	4.98	5.29	4.38
Nontrading securities	5,377	5,112	4,226	4,317	5,248	3,810	11.66	13.34	13.02	15.71	19.16	15.52
Customer loans (gross)	23,878	19,937	14,602	12,176	11,260	10,542	51.79	52.01	44.98	44.30	41.12	42.95
All other loans	23,878	19,937	14,602	12,176	11,260	10,542	51.79	52.01	44.98	44.30	41.12	42.95
Loan loss reserves	626	454	437	451	486	549	1.36	1.18	1.35	1.64	1.77	2.24
Customer loans (net)	23,252	19,483	14,165	11,725	10,774	9,992	50.43	50.83	43.63	42.66	39.34	40.71
Earning assets	36,350	31,751	27,478	23,132	23,137	20,793	78.84	82.83	84.64	84.16	84.48	84.72
Inv. in unconsolidated subsidiaries (financial co.)	1,771	1,459	1,047	825	679	560	3.84	3.80	3.23	3.00	2.48	2.28
Intangibles (nonservicing)	214	0	0	0	0	0	0.46	0.00	0.00	0.00	0.00	0.00
Fixed assets	539	452	349	272	259	242	1.17	1.18	1.08	0.99	0.95	0.99
Derivatives credit amount	147	46	N.A.	N.A.	N.A.	N.A.	0.32	0.12	N.A.	N.A.	N.A.	N.A.

Table 2

Arab Bank Group Profit And Loss Statement Statistics													
(Mil. \$)	--Year ended Dec. 31--						Adj. avg. assets (%)						
	2008*	2007	2006	2005	2004	2003	-	2008*	2007	2006	2005	2004	2003
Profitability													
Interest income	1,689	2,221	1,907	1,275	990	915		5.33	6.27	6.36	4.65	3.81	3.87
Interest expense	890	1,254	1,118	675	505	477		2.81	3.54	3.73	2.46	1.95	2.02
Net interest income	799	967	789	600	485	438		2.52	2.73	2.63	2.19	1.87	1.85
Operating noninterest income	644	700	622	602	455	353		2.03	1.98	2.08	2.19	1.75	1.49
Fees and commissions	208	228	181	196	176	149		0.66	0.64	0.60	0.71	0.68	0.63
Equity in earnings of unconsolidated subsidiaries	264	321	296	220	158	69		0.83	0.91	0.99	0.80	0.61	0.29
Trading gains	38	65	52	53	55	64		0.12	0.18	0.17	0.19	0.21	0.27
Gains/ (losses) on liquidity portfolio securities	26	18	8	46	19	9		0.08	0.05	0.03	0.17	0.07	0.04
Other market-sensitive income	0	0	13	10	6	5		0.00	0.00	0.04	0.04	0.02	0.02
Other noninterest income	109	68	73	77	40	58		0.34	0.19	0.24	0.28	0.16	0.24
Operating revenues	1,444	1,666	1,411	1,202	940	791		4.56	4.71	4.71	4.38	3.62	3.34
Noninterest expenses	555	668	586	541	459	416		1.75	1.89	1.95	1.97	1.77	1.76
Personnel expenses	305	338	260	262	270	245		0.96	0.96	0.87	0.95	1.04	1.03
Other general and administrative expense	213	288	282	240	158	143		0.67	0.81	0.94	0.87	0.61	0.60
Depreciation	37	41	44	40	31	29		0.12	0.12	0.15	0.15	0.12	0.12
Net operating income before loss provisions	889	998	825	661	482	375		2.81	2.82	2.75	2.41	1.85	1.58
Credit loss provisions (net new)	47	34	35	24	48	72		0.15	0.10	0.12	0.09	0.19	0.30
Net operating income after loss provisions	841	964	790	637	433	303		2.66	2.72	2.64	2.32	1.67	1.28
Pretax profit	841	964	790	637	433	303		2.66	2.72	2.64	2.32	1.67	1.28
Tax expense/credit	169	189	165	133	106	75		0.53	0.53	0.55	0.49	0.41	0.32
Net income before minority interest	673	775	625	503	327	228		2.12	2.19	2.08	1.83	1.26	0.96
Minority interest in consolidated subsidiaries	23	12	8	5	8	4		0.07	0.03	0.03	0.02	0.03	0.02
Net income before extraordinaries	650	763	616	498	319	224		2.05	2.15	2.06	1.82	1.23	0.95
Net income after extraordinaries	650	763	616	498	319	224		2.05	2.15	2.06	1.82	1.23	0.95
Core Earnings Reconciliation													
Net Income (before Minority Interest)	673	775	625	503	327	228							
Core earnings	673	775	625	503	327	228		2.12	2.19	2.08	1.83	1.26	0.96
	2008*	2007	2006	2005	2004	2003							
Asset Quality													
Nonperforming assets	595	454	499	443	474	500							
Nonaccrual loans	595	454	461	405	441	476							
Repossessed/other real estate owned	0	0	39	38	32	24							
Net charge-offs	N.A.	(38)	(3)	2	(0)	34							

Table 2

Arab Bank Group Profit And Loss Statement Statistics (cont.)						
Average balance sheet						
Average customer loans	21,368	16,824	12,945	11,250	10,383	9,628
Average earning assets	34,050	29,615	25,305	23,135	21,965	20,169
Average assets	42,327	35,399	29,975	27,436	25,965	23,669
Average total deposits	33,320	27,520	23,856	22,681	21,808	20,007
Average interest-bearing liabilities	33,838	27,821	23,933	22,735	21,846	20,031
Average common equity	6,957	6,297	4,830	3,612	3,134	2,733
Average adjusted assets	42,220	35,399	29,975	27,436	25,965	23,669
Other data						
Number of employees (end of period, actual)	12,249	8,320	6,356	6,073	5,930	5,931
Number of branches	368	N.A.	178	186	174	166
Off-balance-sheet credit equivalents	21,340	16,432	14,169	9,678	9,190	7,766

*Data as of Sept. 30, 2008; ratios annualized where appropriate. Financial statements are consolidated, audited, and compliant with IFRS. N.A.--Not available.

Table 3

	--Year ended Dec. 31--					
	2008*	2007	2006	2005	2004	2003
ANNUAL GROWTH (%)						
Customer loans (gross)	26.35	36.53	19.93	8.13	6.82	7.89
Loss reserves	36.14	0.36	1.94	(1.50)	(16.85)	13.30
Adjusted assets	27.03	18.07	18.12	0.36	11.58	7.68
Customer deposits	34.44	13.20	12.82	(0.92)	6.50	8.22
Total equity	14.88	16.53	51.47	13.46	17.41	11.47
Operating revenues	15.48	18.10	17.39	27.84	18.81	7.62
Noninterest expense	10.65	14.08	8.20	18.06	10.15	11.99
Net operating income before provisions	18.71	20.95	24.92	37.16	28.42	3.15
Loan loss provisions	85.87	(3.48)	46.45	(50.15)	(32.77)	3.55
Net operating income after provisions	16.34	22.04	24.11	46.90	42.92	3.06
Pretax profit	16.34	22.04	24.11	46.90	42.92	3.06
Net income	15.74	24.08	24.12	53.92	43.55	(1.01)
	2008*	2007	2006	2005	2004	2003
PROFITABILITY (%)						
Interest Margin Analysis						
Net interest income (taxable equiv.)/avg. earning assets	3.13	3.26	3.12	2.59	2.21	2.17
Net interest spread	3.11	2.99	2.86	2.54	2.20	2.16
Interest income (taxable equiv.)/avg. earning assets	6.61	7.50	7.53	5.51	4.51	4.54
Interest expense/avg. interest-bearing liabilities	3.51	4.51	4.67	2.97	2.31	2.38
Revenue Analysis						
Net interest income/revenues	55.37	58.02	55.89	49.91	51.63	55.39
Fee income/revenues	14.42	13.65	12.84	16.27	18.71	18.79

Table 3

Arab Bank Group Ratio Analysis (cont.)						
Market-sensitive income/revenues	4.41	4.98	5.16	9.08	8.52	9.84
Noninterest income/revenues	44.63	41.98	44.11	50.09	48.37	44.61
Personnel expense/revenues	21.12	20.30	18.42	21.76	28.71	30.92
Noninterest expense/revenues	38.42	40.10	41.51	45.04	48.77	52.61
Noninterest expense/revenues less investment gains	39.13	40.53	42.14	47.24	50.11	53.57
Net operating income before provision/revenues	61.58	59.90	58.49	54.96	51.23	47.39
Net operating income after provisions/revenues	58.29	57.86	55.99	52.96	46.09	38.32
New loan loss provisions/revenues	3.29	2.04	2.50	2.00	5.14	9.08
Pretax profit/revenues	58.29	57.86	55.99	52.96	46.09	38.32
Tax/pretax profit	20.03	19.62	20.94	20.95	24.56	24.89
Core Earnings/Revenues	46.61	46.51	44.26	41.87	34.77	28.78
	2008*	2007	2006	2005	2004	2003
Other Returns						
Pretax profit/avg. risk assets (%)	4.05	4.30	4.34	4.25	3.28	2.37
Revenues/avg. risk assets (%)	6.95	7.44	7.75	8.02	7.12	6.20
Net operating income before LLP/LLP	1873.20	2933.03	2340.56	2743.94	997.27	522.10
Net operating income before loss provisions/avg. risk assets (%)	4.28	4.45	4.53	4.41	3.64	2.94
Net operating income after loss provisions/avg. risk assets (%)	4.05	4.30	4.34	4.25	3.28	2.37
Net income before minority interest/avg. adjusted assets	2.12	2.19	2.08	1.83	1.26	0.96
Net income/employee (currency unit)	87,220	105,610	100,501	83,844	55,123	38,326
Non-interest expenses/average adjusted assets	1.75	1.89	1.95	1.97	1.77	1.76
Personnel expense/employee (currency unit)	39,524	46,103	41,812	43,579	45,506	41,181
Core earnings/average risk-weighted assets	3.24	3.46	3.43	3.36	2.47	1.78
Core earnings/average adjusted assets	2.12	2.19	2.08	1.83	1.26	0.96
Core earnings/ Average ACE (ROE)	12.80	12.69	13.54	14.67	10.71	8.42
	2008*	2007	2006	2005	2004	2003
FUNDING AND LIQUIDITY (%)						
Customer deposits/funding base	81.93	80.27	84.83	84.54	83.82	86.98
Total loans/customer deposits	78.00	81.95	67.95	63.92	58.57	58.40
Total loans/customer deposits + long-term funds	62.45	63.93	53.34	53.09	49.71	50.27
Customer loans (net)/assets (adj.)	50.43	50.83	43.63	42.66	39.34	40.71
Parent Only Analysis						
	2008*	2007	2006	2005	2004	2003
CAPITALIZATION (%)						
Adjusted common equity/risk assets	24.01	26.97	27.60	22.45	23.37	22.82
Internal capital generation/prior year's equity	12.80	10.24	12.43	12.16	8.99	6.33
Tier 1 capital ratio	16.30	19.87	21.39	16.48	17.47	18.22
Regulatory total capital ratio	18.20	22.75	23.70	19.01	20.76	21.27
Adjusted total equity/adjusted assets	12.30	13.34	14.16	10.03	9.49	9.24
Adjusted total equity/adjusted assets + securitizations	12.30	13.34	14.16	10.03	9.49	9.24
Adjusted total equity/risk assets	18.30	20.98	22.48	17.28	18.53	18.30

Table 3

Arab Bank Group Ratio Analysis (cont.)						
	2008*	2007	2006	2005	2004	2003
Adjusted total equity plus LLR (specific)/customer loans (gross)	26.38	27.93	34.47	26.35	27.41	26.73
Common dividend payout ratio	N.A.	21.85	22.62	17.33	18.74	26.90
ASSET QUALITY (%)						
New loan loss provisions/avg. customer loans (net)	0.30	0.20	0.27	0.21	0.47	0.75
Net charge-offs/avg. customer loans (net)	N.A.	(0.23)	(0.02)	0.02	(0.00)	0.36
Loan loss reserves/customer loans (gross)	2.62	2.28	2.99	3.70	4.32	5.21
Credit-loss reserves/risk assets	2.49	2.49	2.96	3.72	4.30	5.85
Nonperforming assets (NPA)/customer loans + ORE	2.49	2.28	3.41	3.63	4.19	4.73
NPA (excl. delinquencies)/customer loans + ORE	2.49	2.28	3.41	3.63	4.19	4.73
Net NPA/customer loans (net) + ORE	(0.14)	(0.00)	0.44	(0.07)	(0.11)	(0.50)
NPA (net specifics)/customer loans (net specifics)	(0.14)	(0.00)	0.44	(0.07)	(0.11)	(0.50)
Loan loss reserves/NPA (gross)	105.30	100.09	87.58	101.74	102.60	109.94

*Data as of Sept. 30, 2008; ratios annualized where appropriate. Financial statements are consolidated, audited, and compliant with IFRS. N.A.--Not available.

Ratings Detail (As Of January 8, 2009)*

Arab Bank Group

Sovereign Rating

Jordan (Hashemite Kingdom of)

Foreign Currency

BB/Stable/B

Local Currency

BBB/Stable/A-3

Related Entities

Arab Bank Australia Ltd.

Issuer Credit Rating

A-/Stable/A-2

Certificate Of Deposit

A-/A-2

Arab Bank PLC

Issuer Credit Rating

BBB/Stable/A-3

Certificate Of Deposit

BBB/A-3

Arab Bank PLC (Bahrain)

Issuer Credit Rating

A-/Stable/A-2

Certificate Of Deposit

A-/A-2

Arab Bank PLC (Dubai)

Issuer Credit Rating

A-/Stable/A-2

Certificate Of Deposit

A-/A-2

Arab Bank PLC (Qatar)

Issuer Credit Rating

A-/Stable/A-2

Certificate Of Deposit

A-/A-2

Arab Bank PLC (Singapore)

Issuer Credit Rating

A-/Stable/A-2

Certificate Of Deposit

A-/A-2

Arab Tunisian Bank

Issuer Credit Rating

BB+/Stable/B

Ratings Detail (As Of January 8, 2009)***(cont.)**

Certificate Of Deposit	BB+/B
Senior Unsecured (4 Issues)	BB+
Europe Arab Bank PLC	
Issuer Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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