

FITCH AFFIRMS ARAB BANK AUSTRALIA AT 'A-'; OUTLOOK STABLE

Fitch Ratings-Sydney-31 August 2011: Fitch Ratings has affirmed Arab Bank Australia Limited's (ABAL) ratings, including its Long-Term Foreign Currency Issuer Default Rating (IDR) at 'A-' with Stable Outlook. A full list of ratings can be found at the end of this release.

ABAL's Long- and Short-Term IDRs reflect the potential for support from its parent, Jordan-based Arab Bank plc ('A-/Stable), if required. Arab Bank plc maintains a conservative and liquid balance sheet and with ABAL accounting for just 3% of group assets at 31 December 2010, there is an extremely high propensity and ability to provide support.

The bank's limited financial profile and franchise, and concentrated loan portfolio are key drivers of its Viability Rating. The former is reflected in ABAL's modest profitability and small footprint while the latter is highlighted by asset quality deterioration during FY10 and an increased exposure to construction loans, which were 39% of gross loans at FYE10 (FYE09: 23%).

ABAL has become more reliant on wholesale funding, with customer deposits falling to 58% of total funding during FY10. Nevertheless, ABAL holds a high level of liquid assets; at FYE10, the bank's liquid assets equated to 22% of total liabilities, a high ratio that is likely to be maintained for the foreseeable future. Despite some deterioration over the past four years, ABAL's capital position remains adequate - at 30 June 2011 it reported a Tier 1 ratio of 9.2%.

ABAL's Long- and Short-Term IDRs are likely to move in line with those of its parent. However, if there is a reduction in the propensity of the parent to provide support negative rating action is likely. Material asset quality deterioration is the factor most likely to lead to a downgrade of ABAL's Viability Rating, although a significant weakening of the liquidity and/or capital position would also place downward pressure on the rating.

ABAL is a wholly-owned subsidiary of Arab Bank plc, a Jordanian bank with a leading market position in the Middle East, and an extensive global presence. At 30 June 2011, ABAL accounted for only 0.05% of Australian banking system assets, according to Australian Prudential Regulation Authority data.

The ratings of ABAL are listed below:

- Long-Term Foreign Currency IDR affirmed at 'A-'; Outlook Stable
- Short-Term Foreign Currency IDR affirmed at 'F1'
- Viability Rating affirmed at 'bb+'
- Individual Rating affirmed at 'C/D'
- Support Rating affirmed at '1'
- AUD200m government guaranteed floating-rate notes affirmed at 'AAA'

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2011, are available at www.fitchratings.com.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171

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