

Rating Action: Moody's downgrades Arab Bank Aust to Baa1, following rating action on its parent

Global Credit Research - 16 Feb 2011

Sydney, February 16, 2011 -- Moody's Investors Service has downgraded the long-term and short-term debt and deposit ratings of Arab Bank Australia Limited to Baa1/P-2 from A3/P-1 and its subordinate rating to (P)Baa2 from (P)Baa1. Concurrently, Moody's has placed these ratings and the bank financial strength rating (BFSR) of D+ on review for possible downgrade.

RATINGS RATIONALE

The rating changes are a direct result of the rating actions taken on Arab Bank Australia's parent, Arab Bank plc on 14 February, which were prompted by Moody's decision on 8 February to lower the sovereign local currency rating of Jordan. Arab Bank plc's BFSR and local currency deposit ratings were downgraded to C/Baa1/P-2 from C+/A3/P-2 and were also placed on review for possible downgrade.

"The downgrade of Arab Bank Australia to Baa1 reflects our view that whilst the potential for support from its parent Arab Bank plc remains very high, the ability of the parent to provide that support has weakened", said Daniel Yu, an Analyst with Moody's Sydney office.

"The potential for parental support remains an important, positive rating factor for Arab Bank Australia", explained Yu. "It lifts the bank's Baa1 deposit and debt ratings two-notches over its baseline credit assessment (BCA) of Baa3, which measures its credit strength on a stand-alone basis".

Moody's incorporates the potential for support into its ratings using its joint default analysis framework. The potential for parental support of a foreign subsidiary uses the parent's BCA as the reference rating, as opposed to the parent's deposit and senior debt ratings. This is because the deposit and senior debt ratings may incorporate the potential for systemic support for the parent in its home market -- which its home market regulator is unlikely to extend to a foreign subsidiary.

The review of Arab Bank plc's ratings will focus on its financial position and the potential impact on the bank's finances from the recent rise in political tensions in Jordan following the turmoil in the region.

The review of Arab Bank Australia's BFSR will focus on whether weakness at its parent has any potential to impact the financial flexibility and business operations of the Australian subsidiary. The bank continues to hold ample capital for its risk profile, demonstrated by a Tier one ratio of 9.52% as at 30 September 2010.

There is no impact on the Aaa rating of debt securities the bank issued under the Australian government's guarantee scheme.

The last rating action on Arab Bank Australia was on 4 May 2007, when its BFSR and deposit ratings were upgraded to D+/A3/P-1 from D/Baa1/P-2.

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007.

Arab Bank Australia is headquartered in Sydney, Australia. It reported assets of AUD1.21billion (approximately USD1.09billion) at FY2009, period ending 31 December 2009.

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