

FITCH AFFIRMS ARAB BANKING CORPORATION AT 'BBB+/'F2'; OUTLOOK STABLE

Fitch Ratings-London/Dubai-01 February 2010: Fitch Ratings has today affirmed Bahrain-based Arab Banking Corporation's (ABC) Long-term foreign currency Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. Fitch has simultaneously affirmed ABC's Short-term foreign currency IDR at 'F2', Individual Rating at 'D', Support Rating at '2' and Support Rating Floor at 'BBB+', senior unsecured debt at 'BBB+' and subordinated debt at 'BBB'.

ABC's IDRs and Support Rating reflect Fitch's view that there would be a high probability of support from its main shareholders if needed, given their commitment to recent past and future rights issues and by confirmation to Fitch of continued support. The Individual Rating reflects Fitch's concerns about ABC's prospects in a challenging operating environment. It also reflects the adequate profitability of its wholesale banking business and satisfactory asset quality in its loan book.

After reporting a significant loss in 2008 due to large impairment charges against parts of the bank's investment portfolio, the bank returned to a moderate level of profitability in 2009 as the global economy began to recover. Margins remain modest at about 1.5% and the bank faces significant challenges in making its strategy successful and highly profitable. Asset quality in the loan book remains satisfactory, with impaired loans at 3.8% of the total portfolio at end-9M09.

Funding remains mainly wholesale, with significant deposits from regional governments and public sector entities. The bank also has some longer-term funding, some of which falls due in 2010 (USD384m in November 2010). Liquidity has improved, with an increase in unencumbered assets and an improvement in the loans/deposits ratio, although it remains above 100%. ABC's capital ratios were adequate at end-9M09 with tier 1 at 13.6% and a Fitch-eligible capital ratio of 12.7%. Capital will be boosted in Q110 by a proposed rights issue of USD1.11bn.

Established in 1980, ABC is a wholesale bank operating internationally, active in trade, project and structured finance, Islamic finance and treasury. It has a major Brazilian subsidiary and small retail and SME/corporate operations in Algeria, Egypt, Jordan and Tunisia. In 2008 the bank decided to embark on a strategy to grow its retail business more rapidly across North Africa and the Levant. Its main shareholders are the Abu Dhabi Investment Authority (27.6%), the main investment arm of the Emirate of Abu Dhabi ('AA'/Stable), the Kuwait Investment Authority (29.7%), the main investment arm of the state of Kuwait ('AA'/Stable), and the Central Bank of Libya (29.5%; the state of Libya is rated 'BBB+'/Stable).

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 29 December 2009, are available on www.fitchratings.com.

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