



Rating Action: Moody's affirms the ratings of four Jordanian banks; changes outlook to positive from stable

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Banks' ratings affirmation follows the affirmation of the Jordanian sovereign rating; outlook change to positive from stable

Limassol, November 21, 2022 – Moody's Investors Service ("Moody's") has today affirmed all ratings of Arab Bank PLC (Arab Bank), The Housing Bank for Trade and Finance (HBTF), Capital Bank of Jordan (CBOJ), and Cairo Amman Bank (CAB). The outlook on all four banks' long-term deposit ratings has been changed to positive, from stable.

The affirmation of the four Jordanian banks' ratings follows the affirmation at B1 of the Jordanian sovereign rating (please see "Moody's changes outlook on Jordan's rating to positive from stable; affirms B1 rating"; https://www.moody's.com/research/-PR_471175), and reflects Moody's view that the banks' solid capital and liquidity metrics, and strengthening profitability is balanced against ongoing asset-quality risks.

The change in outlook to positive on the banks' long-term deposit ratings is in line with the change in outlook to positive on the sovereign's B1 ratings. All ratings and assessments of Arab Bank and HBTF will likely be upgraded if the rating of the sovereign is upgraded, as their creditworthiness is constrained by the sovereign creditworthiness. The positive outlooks on the long-term deposit ratings of CBOJ and CAB reflect the positive outlook on the sovereign, which indicates a potential higher capacity by the sovereign to support the banks, in case of need, which could lead to higher deposit ratings.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

BANK BY BANK RATIONALE

- Arab Bank PLC and Arab Bank Plc (Dubai Branch)

Arab Bank PLC's (Arab Bank) Ba2/Not Prime deposit ratings are in line with its ba2 Baseline Credit Assessment (BCA) and exceed Jordan's B1 sovereign rating by two notches, reflecting the bank's moderate direct sovereign exposure at around 50% of the bank's tangible common equity (TCE) as of September 2022, and its deposit-funded profile and wide geographical diversification outside Jordan with operations in 28 countries, which counterbalances the risks in individual markets and supports its business and revenue diversification.

The affirmation of Arab Bank's ratings balances the bank's strong liquidity, at 40% of total assets as of September 2022, solid capitalisation with group reported Common Equity Tier 1 (CET1) capital ratio of 15.0% as of September 2022 and strengthening profitability against ongoing asset-quality risks. While Arab Bank has wide diversification and will benefit from stronger operating conditions in some of its markets, like the Gulf states, it also has exposures to some riskier operating environments in some North African and Levant countries.

Arab Bank's long-term deposit ratings have a positive outlook, in line with the positive outlook on the sovereign ratings. The bank's BCA and deposit rating is two notches above Jordan's sovereign rating and a higher sovereign rating

would allow the bank to be rated higher, while maintaining the two notch differential.

- The Housing Bank for Trade and Finance

The Housing Bank for Trade and Finance's (HBTF) B1/Not Prime deposit ratings are derived from the bank's b1 BCA, which is at the same level as the Government of Jordan's B1 issuer rating, reflecting the bank's links with the sovereign because of its high sovereign exposures, at 2.2x its TCE as of September 2022.

The affirmation of HBTF's ratings captures its strong capital base, with the bank's TCE at 14.5% of Moody's adjusted risk-weighted assets as of September 2022; strong liquidity, with liquid assets close to 40% of assets; and a robust retail deposit-funded profile. These strengths are balanced by elevated asset-quality risks, partly reflecting the bank's high borrower concentrations.

HBTF's long-term deposit ratings have a positive outlook, in line with the positive outlook on the sovereign ratings. The bank's BCA and deposit rating is constrained by Jordan's sovereign rating and a higher sovereign rating will allow the bank to be rated higher.

- Capital Bank of Jordan

Capital Bank of Jordan's (CBOJ) B1/Not Prime deposit ratings are derived from its b1 BCA and are at the same level as, but not constrained by, Jordan's B1 sovereign rating. Accordingly, CBOJ's standalone rating will likely remain unaffected by a higher sovereign rating.

The affirmation of CBOJ's ratings reflects its deposit-driven funding profile and robust liquidity, with liquid assets accounting for 44% of tangible banking assets as of September 2022, and profitability that compares favourably with that of domestic peers, supported by its sustained balance-sheet growth. Against these strengths, the ratings balance the continued pressure on CBOJ's asset quality because of elevated nonperforming loans (NPLs) and high loan growth. The bank also has rising exposure to Iraq's riskier operating environment, around 14% of assets as of September 2022, although this leads to favourable growth prospects.

CBOJ's long-term deposit ratings have a positive outlook, in line with the positive outlook on the sovereign ratings. The positive outlook indicates a potential higher capacity by the sovereign to support the bank, in case of need, which would benefit the bank's deposit ratings.

- Cairo Amman Bank

Cairo Amman Bank's (CAB) B1/Not Prime deposit ratings are derived from its b1 BCA, which is at the same level, but not constrained by, the Government of Jordan's B1 rating. Accordingly, CAB's standalone rating will likely remain unaffected by a higher sovereign rating.

The affirmation of CAB's ratings reflects its high capital, with a reported Basel III CET1 capital ratio of 14% as of June 2022, retail-deposit-driven funding profile and robust liquidity, accounting for 37% of tangible banking assets as of June 2022. At the same time, CAB's BCA also captures continued pressure on its asset quality, as well as by its growing exposure to Palestine, which has a riskier operating environment.

CAB's long-term deposit ratings have a positive outlook, in line with the positive outlook on the sovereign ratings. The positive outlook indicates a potential higher capacity by the sovereign to support the bank, in case of need, which would benefit the bank's deposit ratings.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The positive outlook on the banks' long-term deposit ratings is in line with the positive outlook on the B1 sovereign ratings and a potential upgrade of the sovereign would likely lead to an upgrade in the banks' deposit ratings. For Arab Bank and HBTF a potential upgrade in the sovereign rating, would also lead to a higher standalone BCA as their

creditworthiness is currently constrained by the Jordanian sovereign's creditworthiness. Positive rating pressure could further result from an improvement in the operating environment, and a sustained improvement in asset quality.

Downward pressure on the banks' ratings is more limited, given the positive outlooks. A change of the outlook to stable from positive could emerge if there is a deterioration in the banks' asset quality and profitability beyond that of peers we rate similarly, posing a risk to the banks' capital. A change in the outlook to stable for CBOJ and CAB may also materialize if we assess a lower probability that the sovereign would support the banks, in case of need.

LIST OF AFFECTED RATINGS

Issuer: Arab Bank PLC

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Ba2

....Short-term Counterparty Risk Ratings, affirmed NP

....Long-term Bank Deposits, affirmed Ba2, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed NP

....Long-term Counterparty Risk Assessment, affirmed Ba2(cr)

....Short-term Counterparty Risk Assessment, affirmed NP(cr)

....Baseline Credit Assessment, affirmed ba2

....Adjusted Baseline Credit Assessment, affirmed ba2

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: Arab Bank Plc (Dubai Branch)

..Affirmations:

....Long-term Counterparty Risk Rating, affirmed Ba2

....Short-term Counterparty Risk Rating, affirmed NP

....Long-term Bank Deposits, affirmed Ba2, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed NP

....Long-term Counterparty Risk Assessment, affirmed Ba2(cr)

....Short-term Counterparty Risk Assessment, affirmed NP(cr)

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: Cairo Amman Bank

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Ba3

....Short-term Counterparty Risk Ratings, affirmed NP

....Long-term Bank Deposits, affirmed B1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed NP

....Long-term Counterparty Risk Assessment, affirmed Ba3(cr)

....Short-term Counterparty Risk Assessment, affirmed NP(cr)

....Baseline Credit Assessment, affirmed b1

....Adjusted Baseline Credit Assessment, affirmed b1

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: Capital Bank of Jordan

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Ba3

....Short-term Counterparty Risk Ratings, affirmed NP

....Long-term Bank Deposits, affirmed B1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed NP

....Long-term Counterparty Risk Assessment, affirmed Ba3(cr)

....Short-term Counterparty Risk Assessment, affirmed NP(cr)

....Baseline Credit Assessment, affirmed b1

....Adjusted Baseline Credit Assessment, affirmed b1

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: Housing Bank for Trade and Finance (The)

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Ba3

....Short-term Counterparty Risk Ratings, affirmed NP

....Long-term Bank Deposits, affirmed B1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed NP

....Long-term Counterparty Risk Assessment, affirmed Ba3(cr)

....Short-term Counterparty Risk Assessment, affirmed NP(cr)

....Baseline Credit Assessment, affirmed b1

....Adjusted Baseline Credit Assessment, affirmed b1

..Outlook Action:

....Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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