CREDIT OPINION
20 May 2024

Update

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RATINGS

Housing Bank for Trade and Finance (The)

Domicile	Amman, Jordan
Long Term CRR	Ba2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Housing Bank for Trade and Finance (The)

Update following upgrade to Ba3

Summary

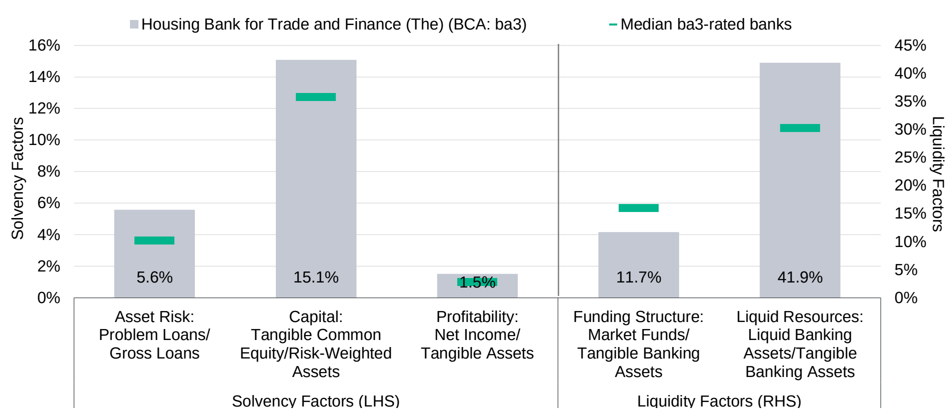
Housing Bank for Trade and Finance (The)'s (HBTF) Ba3 deposit ratings are derived from the bank's ba3 Baseline Credit Assessment (BCA), which is at the same level as Jordan's Ba3 sovereign rating.

HBTF's ba3 BCA incorporates its strong capital base, with a tangible common equity (TCE) at 15.1% of our adjusted risk-weighted assets as of December 2023; strong liquidity, with liquid assets at 42% of assets as of end December 2023; and a robust retail deposit-funded profile.

At the same time, the BCA captures elevated asset-quality risks amid high borrower concentrations and the higher interest rate environment, while geopolitical risks also remain high in the region.

Exhibit 1

Rating Scorecard - Key financial ratios



These metrics represent our Banks rating methodology scorecard ratios, whereby asset-risk and profitability ratios are the weaker of either the latest reported or the average of the latest reported and the latest three full-year ratios. The capital ratio is the latest reported, and the funding structure and liquid resources ratios are latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Strong capital base

» Robust retail-deposit funding and strong liquidity

» Solid profitability

Credit challenges

» Elevated asset-quality risk, partly due to high borrower concentrations, higher interest rates, and elevated regional geopolitical risks

Outlook

The stable outlook on HBTF's long-term deposit ratings is in line with the stable outlook on the sovereign and balances the bank's high capitalisation and liquidity buffers against the elevated asset-quality risks, while geopolitical risks also remain high in the region.

Factors that could lead to an upgrade

Any upward rating pressure on HBTF's deposit ratings would need to be preceded by an upgrade in the Jordanian sovereign rating. Positive rating pressure could further result from a substantial improvement in the operating environments where the bank is present, a sustained improvement in asset quality metrics and progress with the bank's digital transformation journey.

Factors that could lead to a downgrade

A deterioration in Jordan's sovereign creditworthiness would likely lead to a downgrade. Our assessment of a high likelihood of government support is likely to mitigate the impact on the deposit ratings of a lower standalone credit assessment.

HBTF's standalone credit assessment may be lowered if there is an escalation in the regional conflict or if we assess that there is a weakening in the operating environments where the bank is present or if we expect that its financial metrics will materially weaken.

Key indicators

Exhibit 2

Housing Bank for Trade and Finance (The) (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (JOD Million)	8,676.9	8,458.6	8,245.3	8,306.0	8,439.2	0.7[4]
Total Assets (USD Million)	12,220.1	11,912.7	11,629.5	11,715.2	11,903.0	0.7[4]
Tangible Common Equity (JOD Million)	1,251.1	1,179.5	1,121.5	1,072.1	1,039.3	4.7[4]
Tangible Common Equity (USD Million)	1,761.9	1,661.1	1,581.8	1,512.2	1,465.9	4.7[4]
Problem Loans / Gross Loans (%)	4.8	4.6	5.8	7.2	6.3	5.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.1	15.3	14.0	14.1	13.9	14.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.0	13.4	16.3	21.6	20.5	17.1[5]
Net Interest Margin (%)	4.4	3.8	3.6	3.7	3.6	3.8[5]
PPI / Average RWA (%)	3.2	2.6	2.6	2.7	2.7	2.7[6]
Net Income / Tangible Assets (%)	1.6	1.6	1.3	0.5	1.0	1.2[5]
Cost / Income Ratio (%)	42.1	45.9	43.8	43.4	44.3	43.9[5]
Market Funds / Tangible Banking Assets (%)	11.7	15.1	14.7	13.2	10.5	13.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	41.9	41.4	43.9	42.6	44.0	42.8[5]
Gross Loans / Due to Customers (%)	82.8	84.1	80.2	79.6	73.9	80.1[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

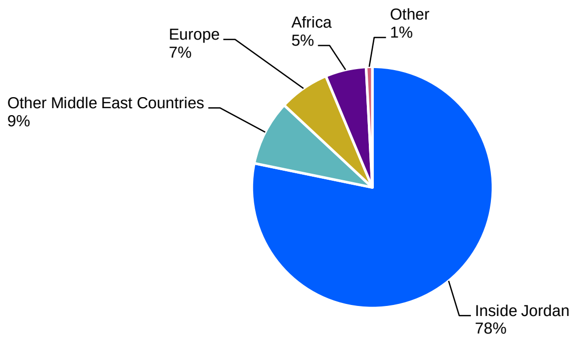
Sources: Moody's Ratings and company filings

Profile

HBTF is based in Jordan with US$12.7 billion in assets as of March 2024. HBTF is the second-largest bank in Jordan, with a market share of 12% in terms of assets as of end March 2024. The bank is a leader in mortgage lending and has the country's largest branch network with 106 branches. The bank's shares are listed on the Amman Stock Exchange, with Qatar National Bank (Q.P.S.C.) (QNB, Aa3 stable, baa1[1]) as its largest shareholder with a 38.6% stake as of March 2024.

The concentration of HBTF's activities in Jordan (see Exhibit 3) leads us to use Jordan's Weak+ Macro Profile score to derive the bank's ratings. Internationally, HBTF operates through 16 foreign branches in Bahrain (1) and Palestine (15); and 39 subsidiary bank branches in Syria (29), Algeria (9) and the UK (1); and representative offices in Iraq, Libya and the UAE.

Exhibit 3
The majority of HBTF's credit exposures are in Jordan
Breakdown in net Credit Facilities as of December 2023



Source: Bank's financial statements

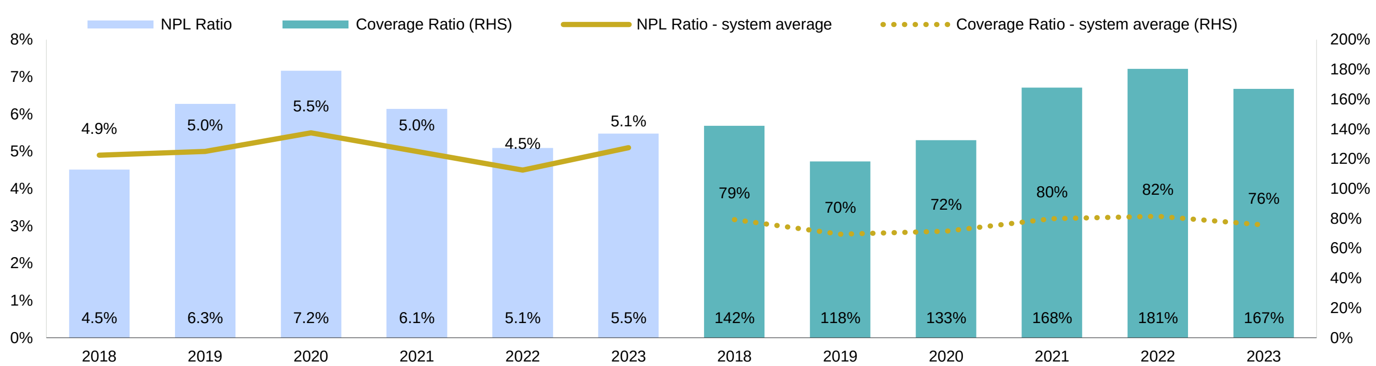
For further information see the bank's issuer profile, published on 13 May 2024.

Detailed credit considerations

Elevated asset-quality risk, partly due to high borrower concentrations

HBTF's asset risks remain elevated. As of December 2023, the bank's adjusted problem loans[2]/gross loans weakened to 5.5% (see Exhibit 4), from 5.1% as of year-end 2022. Stage 2 loans were a moderate 9.2% of gross loans as of year-end 2023. Positively, HBTF maintained a high loan-loss provisioning coverage of 167%. According to the bank's investor presentation, the bank's stage 3 loans net of interest in suspense weakened further to 6.3% of gross loans, while coverage ratio remained high at 135% during the first quarter of 2024.

Exhibit 4
HBTF's asset-quality metrics have recently weakened reversing an improving trend



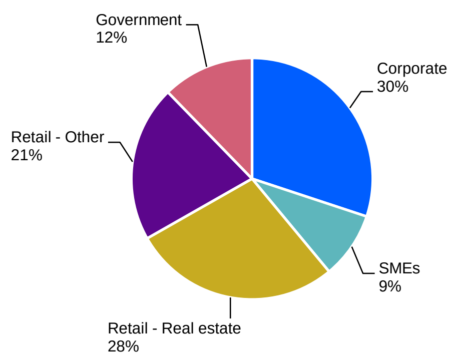
Source: Bank's financial statements, Central Bank of Jordan data and Moody's Ratings

HBTF's loan book is skewed towards retail loans, including real estate mortgages, while it also holds a large exposure to government loans (see Exhibit 5). The retail segment has seen lower provisions because it predominantly consists of salary-assigned lending, primarily to government employees.

Exhibit 5

A higher-than-average percentage of retail mortgages and government-related loans

Loan-book breakdown by segment as of the end of December 2023



Source: Bank's financial statements and Moody's Ratings

In Jordan, despite the recovering economy, higher interest rates maintain elevated asset risks, as geopolitical risks also remain high in the region. The hostilities between Israel (A2 negative) and Hamas are a near-term risk both because of the bank's exposures in Palestine, primarily the West Bank which we estimate around 6% of total loans, but also because of Jordan's proximity to the conflict. However, we expect the impact to be manageable if the conflict remains contained between Israel and Hamas, notwithstanding continued hostilities between Israel, Iran and Iran-backed groups.

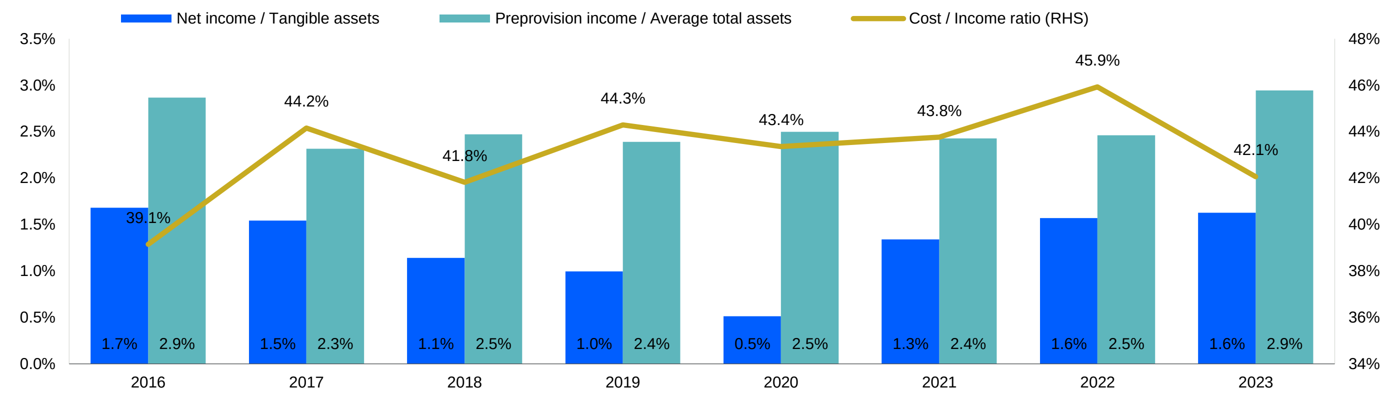
Asset-quality risks also reflect HBTF's high credit concentrations. We adjust the bank's Asset Risk score to take into account high credit concentrations in the corporate book (top 20 on- and off-balance-sheet exposures were above 1x its Common Equity Tier 1 [CET1] capital as of the end of June 2023). Our asset risk score also captures the recent deterioration in asset quality and the higher historical volatility in asset quality metrics, compared to higher rated domestic peers.

Concurrently, the bank's sovereign debt holdings, including government-guaranteed bonds, and lending to government and public-sector entities, were 2.4x the bank's TCE as of December 2023. We expect HBTF to maintain its exposure to the Jordanian sovereign because of a limitation on other available lending opportunities.

Solid profitability expected to remain stable

During 2023, pre-provision income to average total assets strengthened to around 2.9% of average assets (2.5% in 2022), as shown in Exhibit 6. The bank's net income-to-tangible assets ratio remained stable at 1.6% during 2023 (1.6% in 2022), as higher loan growth and the increase in interest income due to higher rates, was countered by higher provisions of JOD35.2 million (0.7% of gross loans, including JOD8.4 million provisions against Stage 1 government-related exposures), from a low JOD7.4 million in 2022.

Exhibit 6
Profitability metrics



Source: Bank's financial statements and Moody's Ratings

The cost to income ratio for 2023 declined to 42.1% (2022: 45.9%) while operating expenses to total assets remained low at 2.1%. According to HBTF's quarterly results, return on assets remained high at 1.7% during the first quarter of 2024 and the cost to income ratio declined slightly to 41.7%.

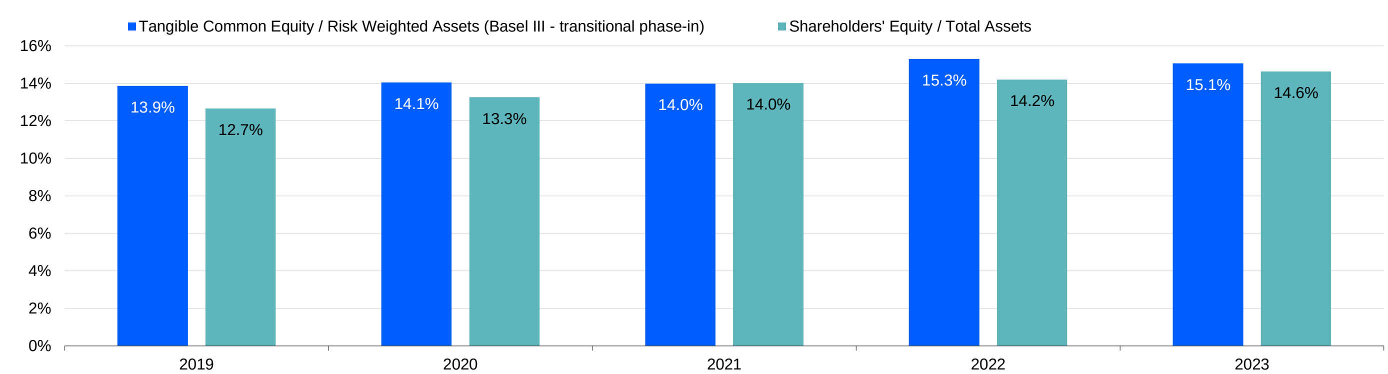
Going forward, we expect profitability to remain broadly stable in spite of lower interest rates, as the bank continues to focus more on the underserved SME segment, and the high-net-worth and younger individuals segment to expand its client base while strengthening its auxiliary services, like trade finance and cash management, to strengthen its nonfunded income. Despite higher costs in short-term, HBTF's longer-term profitability will also be supported by its digital transformation journey to strengthen its service and product offering as well as efficiency, and the ongoing launch of various digital and electronic channels.

Strong capital levels

We expect HBTF's capital ratios to remain strong supported by the bank's internal capital generation and prudent approach to capital. As of December 2023, the bank reported a Basel III CET1 ratio of 17.6%, above the 8.5% regulatory minimum, and a total capital adequacy ratio of 18.8% (18.5% by March 2024), above the 14.5% regulatory minimum (including a 2% buffer for banks with offshore operations and a 0.5% domestically systemically important bank add-on) and its own internal buffer.

The bank's shareholder's equity was a strong 14.6% of total assets and its tangible common equity was 15.1% of our adjusted risk-weighted assets as of December 2023 as shown in Exhibit 7, whereby we risk-weight Jordanian government securities by 100%[3].

Exhibit 7
HBTF maintains strong capital levels



Source: Bank's financial statements and Moody's Ratings

Given the operating environment risks and relatively high credit concentrations, high capitalisation levels are warranted to absorb any unforeseen losses. In the event of need, a potential capital increase may be facilitated by the bank's strong shareholders, including Qatar's largest bank QNB.

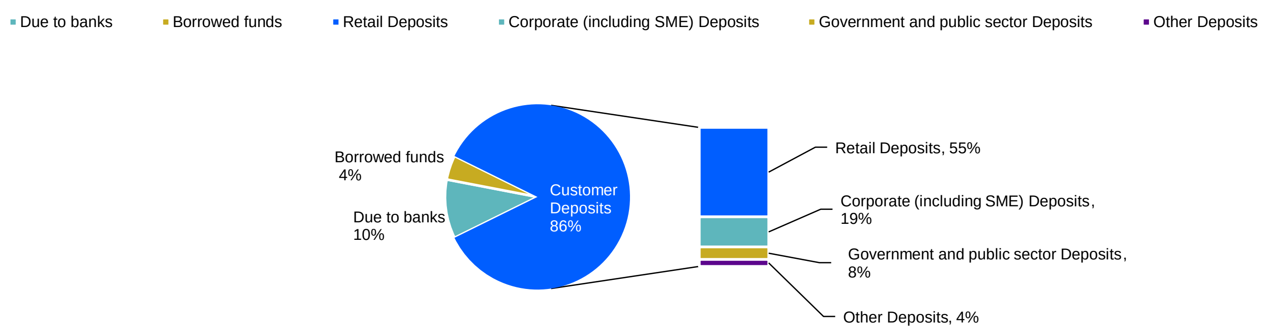
Robust retail-deposit funded profile and strong liquidity levels

HBTF's conservative balance-sheet structure places an emphasis on liquidity protecting against operating environment risks. HBTF's balance sheet is primarily retail deposit funded, supported by an extensive branch network and its leading mortgage lending franchise. As of December 2023, granular retail deposits accounted for 64% of customer deposits and 55% of total funding (see Exhibit 8). The bank also has 55% of its customer deposits in the form of low-cost current account and savings deposits.

Exhibit 8

Retail deposits dominate HBTF's funding structure

Breakdown of non-equity funding as of December 2023

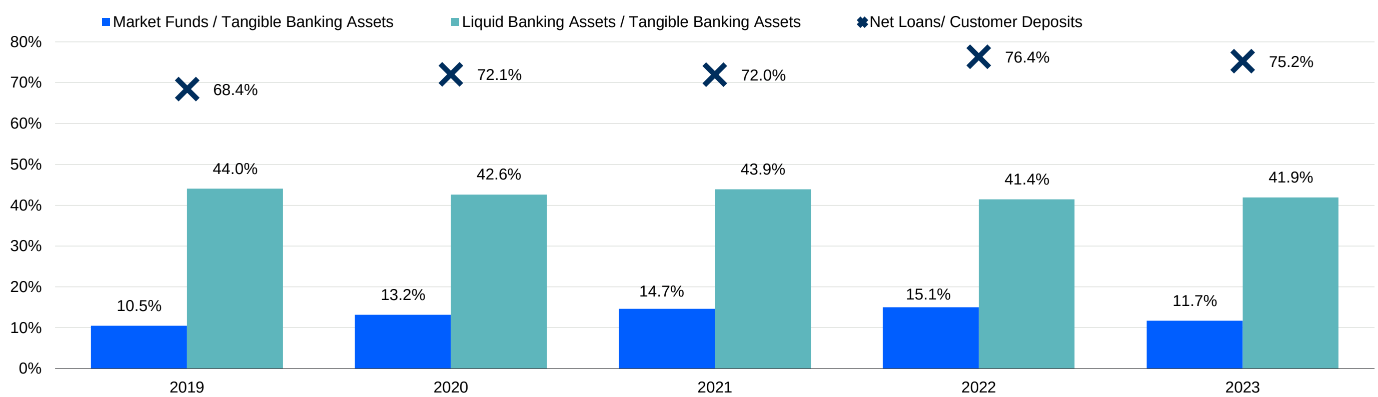


Source: Bank's financial statements and Moody's Financial Metrics

As of December 2023, the bank's liquid assets-to-total assets ratio was at a high 41.9% as shown in Exhibit 9. Cash and interbank placements accounted for 10.6% of total assets, and the majority of the remaining liquid assets were held in government securities. Net loans were at a fairly low 75% of customer deposits as of the same date, although they have been coming up gradually.

Exhibit 9

HBTF maintains a fairly low loans to deposit ratio, and high liquid assets



Source: Bank's financial statements and Moody's Financial Metrics

The bank's market funding reliance is limited and, as of December 2023, was 12% of tangible banking assets, including a JOD33 million coronavirus pandemic-related repo facility with the central bank (0.4% of assets). The bank's major source of long-term funding is Jordan Mortgage Refinancing Company with a total facility of JOD90 million, which the bank uses to fund its long-term mortgage lending portfolio.

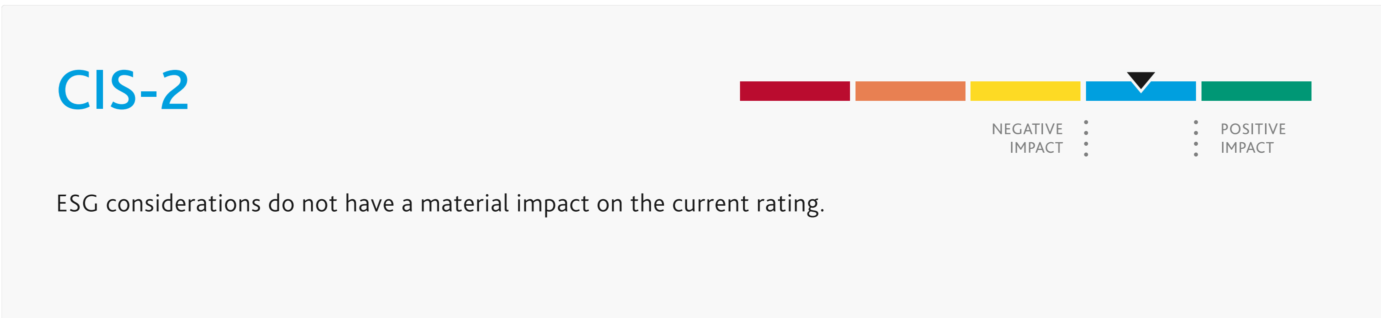
While we view funding and liquidity as a credit strength for the bank, we negatively adjust our scorecard ratios to capture some contractual asset-liability maturity mismatches, due to a lack of other long-term funding options in the market, and the fact that there is no secondary market for Jordanian government securities, despite local-currency securities being repo-able with the central bank.

Overall, our assigned BCA of ba3 is in line with both the bank's scorecard financial profile score and our scorecard-indicated outcome.

ESG considerations

Housing Bank for Trade and Finance (The)'s ESG credit impact score is CIS-2

Exhibit 10
ESG credit impact score



Source: Moody's Ratings

HBTF's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating as moderate environment risks and high social risks are mitigated by the bank's solid governance structure.

Exhibit 11
ESG issuer profile scores

Source: Moody's Ratings

Environmental

HBTF faces moderate environmental risks reflecting its portfolio exposure to physical climate risks and Jordan's water management challenges. In line with global peers, HBTF is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is engaging in developing its climate risk and portfolio management capabilities.

Social

HBTF faces high social risks related to regulatory risk, litigation exposure, and high compliance standards. Data security and customer privacy risk are also high, partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are a further social risk. While a relatively young and growing regional population affords business opportunities for the bank, this is outweighed by potential social unrest in countries with high unemployment rates or in countries affected by geopolitical issues.

Governance

HBTF has an appropriate risk function and board structure with effective oversite. The bank has consistently maintained sound solvency and liquidity profiles. The organisational structure is in line with best practices and appropriate for its size. Qatar National Bank owns

39% of the bank, also reflected in the composition of its board of directors. However, this does not result in incremental governance risks because of the country's overall institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

The Ba3/Not Prime deposit ratings of HBTF are derived from the bank's ba3 BCA, which is at the same level as the Ba3 issuer rating assigned to the Jordanian government.

Although HBTF is systemically important and we attach a very high probability of government support in case of need, the bank's ratings do not benefit from any uplift as its standalone credit profile is already on par with the government's credit profile. Our view of a very high likelihood of government support reflects the bank's 12% asset market share in Jordan as of March 2024, its importance to the country's national payment system and the authorities' track record of supporting local banks when necessary.

Counterparty Risk (CR) Assessment

HBTF's CR Assessment is positioned at Ba2(cr)/Not Prime(cr)

HBTF's Ba2(cr)/Not Prime(cr) CR Assessment is one notch higher than its ba3 Adjusted BCA and, therefore, above deposit ratings, reflecting our view that its probability of default is lower than that of deposits. We believe that authorities are likely to honour the operating obligations of the CR Assessment to preserve a bank's critical functions and reduce the potential for contagion.

Counterparty Risk Ratings (CRRs)

HBTF's foreign- and local-currency CRRs are also positioned at Ba2/Not-Prime

Similar to the CR Assessment, the CRRs are positioned one notch above HBTF's local-currency deposit ratings.

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from banks' reports and our Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 8 April 2024.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 12

Housing Bank for Trade and Finance (The)

Macro Factors		
Weighted Macro Profile	**Weak +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.6%	b1	↓	b3	Single name concentration	Long-run loss performance
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.1%	baa3	↔	baa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	1.5%	ba1	↔	ba1	Return on assets	
Combined Solvency Score		ba2		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	11.7%	ba2	↔	ba2	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	41.9%	baa3	↔	ba1	Expected Trend	
Combined Liquidity Score		ba1		ba2		
Financial Profile				ba3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Ba3		
BCA Scorecard-indicated Outcome - Range				ba2 - b1		
Assigned BCA				ba3		
Affiliate Support notching				0		
Adjusted BCA				ba3		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	ba2	-	Ba2	Ba2
Counterparty Risk Assessment	1	0	ba2 (cr)	-	Ba2(cr)	
Deposits	0	0	ba3	-	Ba3	Ba3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 13

Category	Moody's Rating
HOUSING BANK FOR TRADE AND FINANCE (THE)	
Outlook	Stable
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Ratings

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating and the BCA.

2 We define problem loans as Stage 3 loans less interest in suspense.

3 Banks calculate capital ratios according to the Central Bank of Jordan's rules, assigning a zero risk weight to domestic government securities (both in local and foreign currency). A risk-weighting of 100% is more in line with the global standards for a B1 sovereign rating.

REPORT NUMBER 1405008

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454