Bank of Jordan

Update

Ratings

Long-Term IDR	BB-
Short-Term IDR	B
Viability Rating	bb-
Support Rating	4
Support Rating Floor	B+

Outlooks

Long-Term Foreign-Currency IDR	Negative

Financial Data

Bank of Jordan

	31 Mar 17	31 Dec 16
Total assets (USDm)	3,361	3,294
Total assets JODm)	2,386	2,339
Total equity (JODm)	423	412
Net income (JODm)	13	42
Operating ROAA (%)	3.3	2.8
Operating ROAE (%)	18.8	16.6
Fitch Core Capital/ weighted risks (%)	23.5	23.1
Tier 1 ratio (%)	20.4	20.0
Internal capital generation (%)	12.7	2.7
Impaired loans/ gross loans (%)	4.8	5.1
Loans/customer deposits (%)	81.1	80.8

Key Rating Drivers

Operating Environment Constrains Ratings: Bank of Jordan's (BOJ) Issuer Default Ratings (IDRs) are driven by its intrinsic strength as indicated by its Viability Rating (VR), which is correlated with, and constrained by, the Jordanian operating environment given BOJ's largely domestic focus. The Negative Outlook reflects the difficult operating environment.

Solid Domestic Franchise: BOJ has a solid domestic franchise, especially in the corporate segment. The bank accounted for about 5% of total banking system assets, loans and deposits at end-2016.

Healthy Asset-Quality Metrics: BOJ's asset-quality metrics are sound. The impaired loans ratio dropped to 5% at end-2016 (6.6% at end-2015), supported by write-offs and recoveries, comparing well against domestic peers. Impaired loans are adequately covered by reserves (108% coverage). BOJ is exposed to the sovereign through its investment book, which represents about a third of its equity.

Conservative Risk Appetite: Fitch considers BOJs underwriting standards conservative and consistent over economic cycles. This translates into the bank's well -maintained asset-quality metrics.

Adequate Capital Ratios: Capital ratios are adequate and compare well with local peers. The Fitch Core Capital (FCC) ratio was 23% at end-2016. However, capital ratios need to be viewed in light of high loan book concentration and 0% risk weighting on sovereign securities and exposures guaranteed by the government.

Sound Liquidity: The loans/deposits ratio was 81% at end-2016. Liquid assets (including cash balances less mandatory reserves, interbank placements and investment securities maturing within one year) accounted for a third of total assets and covered about 48% of customer deposits.

Solid Funding Base: BOJ is mainly funded by customer deposits, which represent more than 80% of non-equity funding. The deposit base is relatively well diversified given the high portion of retail deposits (about 80% of the total) and the 20 largest deposits accounted for 7% of the total at end-2016.

Healthy Profitability: BOJ's profitability remains healthy but may come under pressure due to lower margins given high domestic competition, sluggish loan growth, higher tax rates and lower yields on government securities. The latter generate about 20% of the bank's net interest income.

BOJ recently repriced its loan book upwards after the Central Bank of Jordan's (CBJ) interest rate rise, which improved NIM to 5.8% in 1Q17, standing higher than most peers.

Rating Sensitivities

Ratings Mostly Sensitive to the Operating Environment: A deterioration in the Jordanian operating environment would negatively affect the bank's ratings. Material deterioration in asset quality could also have a negative impact on the ratings. Upside potential depends on material improvement in the operating environment.

Related Research

2017 Outlook: Banks in the Levant (January 2017)

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Related Criteria

Global Bank Rating Criteria (November 2016)