Ref: JO01124CRA00-01 19 June 2025

Jordan Kuwait Bank – Ratings Affirmed

Capital Intelligence Ratings (CI Ratings or CI) today announced that it has affirmed the Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) of Jordan Kuwait Bank (JKB or the Bank) at 'BB-' and 'B', respectively. At the same time, CI Ratings has affirmed the Bank's Standalone Rating (BSR) of 'bb-', Core Financial Strength (CFS) rating of 'bb' and Extraordinary Support Level (ESL) of Moderate. The Outlook on the LT FCR and BSR remains Stable.

The Bank's BSR is derived from a CFS rating of 'bb' and Operating Environment Risk Anchor (OPERA) of 'bb-' (indicating moderate risk). Given that international operations account for 32% of JKB group assets, the OPERA also takes into consideration that of the Iraqi subsidiary Bank of Baghdad (BoB). Although JKB's ESL is Moderate, there is no uplift for the BSR, as the latter is already at Jordan's sovereign LT FCR level ('BB-'/Stable). While CI believes the willingness of the government to provide support remains high, its financial capacity is deemed moderate, as indicated by Jordan's sovereign ratings.

The CFS is primarily underpinned by strong consolidated profitability, driven by high fee and commission income at BoB – its Iraqi subsidiary – which supports JKB's industry-leading profitability metrics. Additional strengths include solid consolidated capital and liquidity buffers, above 100% loan-loss reserve (LLR) cover, as well as a stable funding profile in Jordan, supported by strong brand recognition and a loyal customer base. However, the ratings are constrained by a challenging operating environment and elevated geopolitical risks in both Jordan and, to a greater extent, Iraq. Jordan's banking sector remains highly competitive and saturated, while Iraq's banking system is underdeveloped and presents significant structural weaknesses. Nonetheless, BoB affords JKB income and asset diversification benefits, though the two banks operate under markedly different regulatory, market and risk conditions, and currently follow very different business models. In addition, concentration risk weighs on the Bank's credit profile, given significant investments in Jordanian and Iraqi government securities, as well as significant loan book concentrations in Jordan.

The OPERA takes into account both current and projected economic and financial conditions in Jordan, as well as the strengths and weaknesses of the banking sector. The assessment reflects the increase in foreign exchange reserves and moderate coverage of short-term external debt on a remaining maturity basis. It also takes into account Jordan's track record of navigating persistent external pressures, including elevated geopolitical risks and regional instability. At the same time, the assessment factors in the country's continued reliance on capital inflows to finance its chronic current account deficit, limited monetary policy flexibility and significant socioeconomic challenges. The banking sector remains well-regulated, supported by strong capital and liquidity buffers, and has shown notable resilience in a difficult operating environment. Despite high exposure to the sovereign, asset quality remains acceptable, with the sector-wide NPL ratio at 5.6% as of December 2024.

The Bank has a well-established business franchise in Jordan, where it holds good market shares in both loans and deposits, and is a well-recognised brand. Following its 2023 acquisition of a 53.4% stake in BoB from Kuwait-based Burgan Bank (a sister Kuwait Projects Company (KIPCO) entity), JKB has become the fifth-largest bank by consolidated assets in Jordan. Despite the elevated operating risks in Iraq, this acquisition has diversified JKB's asset base and revenue streams, with BoB now accounting for roughly a third of consolidated assets. Meanwhile the Bank's operations in Cyprus, where the Bank has successfully built a significant portfolio of loans and deposits, represent a strategic presence within the EU, focusing on financing trade between Jordan, the region and European markets. By integrating ESG considerations into its operations, the Bank is positioning itself to capitalize on business opportunities in green finance and to support clients with a focus on sustainability.

JKB's credit quality has remained broadly stable, with the slight rise in NPLs, mainly from retail lending, partially reversed in early 2025. The corporate loan book quality improved marginally, though impairments remain concentrated among a few large borrowers. LLR coverage stayed strong and above 100%, reflecting prudent provisioning. Nevertheless, renewed loan asset quality pressures cannot be ruled out, as stage 2 loans remain elevated and continue to represent a potential source of NPL formation, particularly as lending conditions in Jordan have yet to show meaningful improvement. The largest component of non-loan assets comprises investment securities, the bulk of which are Jordanian and Iraqi T-bills and T-bonds (the latter held at BoB). This introduces concentration in sovereign credit risk. Looking ahead, subject to the government's planned rollout of large-scale infrastructure projects in Jordan, the Bank plans to expand credit by targeting government-guaranteed lending (along the supply chain). It also seeks to leverage its expertise to compete with larger peers in co-financing and advisory roles. In Iraq, JKB is preparing to cautiously scale lending in line with group-wide risk and credit standards.

In 2024, JKB's consolidated profitability was strong, largely driven by a near doubling of fees and commissions income from operations in Iraq, which accounted for 65% of consolidated operating income. As a result, the Group delivered sector-leading returns, with operating profit to average assets at 5.1% and ROAA at 3.5%. This despite competition and subdued credit demand in Jordan, weighing on the Bank's domestic operations. Meanwhile, despite stepped-up provisioning charges, these absorbed only 15% of the strong consolidated operating income. Looking ahead regulatory headwinds are likely to reduce non-interest income generation in Iraqi operations, but the latter are expected to continue to support the Group's consolidated earnings strength.

The Group's consolidated funding profile remained solid in 2024, supported by 7% growth in customer deposits, which financed 71% of total assets. However, funding dynamics vary significantly in the Group's two main entities. Domestically JKB benefits from a stable and granular retail customer deposit franchise, resulting in moderate concentrations among individual depositors, while Iraqi operations rely on a more concentrated corporate funding base. Nonetheless, the funding base aligns with the needs of each entity and is sufficient to support the Group's strategic objectives. Consolidated liquidity ratios were ostensibly very good, as they were supported by substantial holdings of repo-eligible Jordanian government securities as well as the Iraqi subsidiary's large placements with the local central bank. The consolidated liquidity coverage ratio stood at a robust 324%, and the net stable funding ratio reached 173%, both comfortably above regulatory minima. JKB's solo liquidity position remained adequate but was comparatively tighter.

The Group's consolidated capital position is good, with the CAR standing at 21.3% in 2024, comfortably exceeding the 14.5% regulatory threshold, which includes buffers for overseas exposure and systemically important institutions. Reported capital ratios benefit from the regulatory zero-risk weighting of government securities in both Jordan and Iraq; nonetheless, the non-weighted group leverage ratio (total capital to total assets) is also strong at around 16%. Meanwhile, although profitability is unlikely to match the exceptional 2024 levels, it is expected to remain sufficient to support ongoing internal capital generation. The successful AT1 bond issuance in 2023 also demonstrated the Group's ability to raise alternative capital from the markets. Group capital buffers underpin loss absorption capacity and are sufficient to support cautious business growth.

JKB's standalone capitalisation is lower, though still above the higher requirements imposed by the Central Bank of Jordan following the Bank's designation as a domestic systemically important bank (D-SIB) in 2024.

Rating Outlook

The Outlook for the Bank's LT FCR and BSR is Stable, indicating that the ratings are unlikely to change over the next 12 months. This reflects our view that the Bank is expected to maintain its current risk profile and that sovereign ratings will remain at current levels.

Rating Dynamics: Upside Scenario

Although unlikely, a LT FCR upgrade would require an upgrade of Jordan's sovereign ratings and an upgrade of the Bank's BSR, resulting either by an improvement in the operating environment or an upgrade of the Bank's CFS, the latter reflecting improvements to the Bank's financial fundamentals.

Rating Dynamics: Downside Scenario

The Outlook for the LT FCR could be revised to Negative were there to be a similar action on the Jordanian sovereign. Alternatively, downward pressure could result from the Bank's risk profile deteriorating either due to renewed asset quality pressures, challenges in implementing strategic plans or a significantly weaker operating environment in Jordan or Iraq, resulting in a lowering of the OPERA.

Ratings

Foreign Currency		Outlook	BSR	Outlook	CFS	ESL	OPERA
LT	ST	LT FC		BSR			
BB-	B	Stable	bb-	Stable	bb	Moderate	bb-

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About the Ratings

The credit ratings have been issued by Capital Intelligence Ratings Ltd, P.O. Box 53585, Limassol 3303, Cyprus.

The following information sources were used to prepare the credit ratings: public information and information provided by the rated entity. Financial data and metrics have been derived by CI from the rated entity's financial statements for FY2020-24. CI may also have relied upon non-public financial information provided by the rated entity and may also have used financial information from credible, independent third-party data providers. CI considers the quality of information available on the rated entity to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The principal methodology used to determine the ratings is the Bank Rating Methodology, dated 3 April 2019 (see www.ciratings.com/page/rating-methodologies/bank-ratings). Information on rating scales and definitions, the time horizon of rating outlooks, and the definition of default can be found at www.ciratings.com/page/our-policies-procedures. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

This rating action follows a scheduled periodic (annual) review of the rated entity. Ratings on the entity were first released in January 1995. The ratings were last updated in July 2024. The ratings and rating outlook were disclosed to the rated entity prior to publication and were not amended following that disclosure. The ratings have been assigned or maintained at the request of the rated entity or a related third party.

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