

CAPITAL BANK OF JORDAN

Great start to the year, exceeding the 16% RoE target

- **EPS in Q1 surged 52% y/y, mainly driven by higher fees (mostly transfers fees), NII, and improving C/I (34% vs 38.9% in FY23). This was despite a higher CoR. RoE reached 22.5% (vs. 12% in FY23) and RoA at 1.7% (+80bps vs FY23). We lift our FY24e estimates by 5% but leave our FY25e-28e estimates unchanged, pencilling in double-digit EPS growth.**
- **We forecast RoE in FY24e of 16.3% (after ADT1 coupon payments) on stronger revenue generation. Lower policy rates after FY24 will further support the bank, as lower rates (given ALM), and normalising CoR should benefit it.**
- **The stock remains compelling at 0.8x BV and P/E 25e of 4.3x vs. a mid-cycle RoE of c17.8 % and FY26 target > 16%, recording the highest RoE in Jordan. Our TP of JOD 4.0 offers a significant upside.**

We expect CAPL to meet its RoE target of > 16% this year after a solid start to the year. We increase our NIM forecasts by 10bps. However, higher rates for longer weigh on the outlook as of FY25e. We raised CoR 24e by 50bps and our F&C forecasts by 6-16% in FY24-26e. As a result, we increased our EPS forecasts by 4.5% in FY24e but left our FY25-28e estimates essentially unchanged. We forecast RoE24e of 16.3% (after ADT1 coupon payments) on more robust revenue generation (mainly commission income), reaching 17.8% by FY27e as CAPL is expected to benefit from a reducing rate environment and normalising CoR.

Higher-than-expected commission income drives earnings beat in Q1. Group EPS in Q1 was 44.1% above ACe in Q1, mainly on stronger-than-expected commission income. Compared to Q1 23, group earnings in Q1 expanded by 88% on similar dynamics. In comparison, earnings after ADT1 coupon payments were up 51% y/y, held back by higher minority interest and ADT1 coupon payments to fund the acquisition of SGBJ and other growth initiatives, such as the digital bank and the growth of the leasing portfolio. Fees and Commissions have been growing since Q3 23, with the support from FX and transfer commissions in NBI. Sequentially, attributable net income rose by 52% on lower CoR and OpEx and more robust revenue generation, mainly F&C, while earnings after ADT1 coupons rose by 66.4%. OpEx increased 18% y/y, but dropped by 8% q/q, implying JAWs of 16% q/q and 41% y/y.

NIM rose by 5bps q/q and 27bps y/y in Q1, and NIM will expand further once rates normalise. For FY24e, we raise our NIM assumption by 10bps, pencilling in 22bps expansion over FY23, on a better-than-expected margin trend as NIM rose by 5bps q/q and 27bps y/y in Q1, on our calculations, albeit at the expense of its balance sheet and market share growth. We update our rate outlook, assuming flat average rates in FY24e, 50bps lower rates for FY25e, 75bps for FY26e, and 100bps for FY27e versus 40bps for FY24e, 100bps for FY25e, 60bps for FY26e, previously. As a result, we lower our NIM forecasts by 6-7bps in FY25-26e and raise by 18-19bps in FY27-28e. CAPL is expected to benefit when rates move lower. We expect a cumulative expansion of 57bps in FY25-27 vs compression of 46bps during FY22-23 with a negative 12-month ALM gap of 29.8%, with liabilities adjusting faster than assets.

Interbank leads sequential non-equity funding growth in Q1 as deposits declined slightly YtD. Total assets grew by 3.5% YtD, mainly funded by interbank, contributing 83% of the sequential growth in non-equity funding. The loan book expanded by 2.5% q/q and remained broadly flat y/y, while deposits declined by 1.1% sequentially, still 0.5% higher than a year ago. The sequential loan book expansion was mainly driven by large corporates (+3.5% q/q, contributing 64% to loan q/q growth) followed by GRE (+9.3% q/q, 37.7%) and retail (2.4% q/q, 25.5%), albeit real estate and SME loans dropped 4.3% q/q and 3.4% q/q, respectively. Current and savings accounts decreased by 3.4% q/q (still up 9.6% y/y) and 11.1% q/q (0.3% y/y), respectively, whilst time deposits rose by 2%, implying CASA migration due to higher rates. Nevertheless, the CASA share stood at 40% in Q1 vs. 42% YE 23 and 38% a year earlier. The bank's deposit market share slipped to 8.7% vs 8.9% YE23, while the loan market share increased from 7.9% to 8.1%, making CAPL the third largest in Jordan.

NPL formation in Q1 stood at -53bps vs. annualised CoR of 1.67%. NPL formation for the quarter stood at -53bps compared to 105bps in the previous quarter and -171bps in Q1 23, while annualised CoR dropped from 324bps sequentially to 167bps, still higher than 99bps a year earlier. We raise our CoR assumption for FY24e by 50bps to 1.9%, well above its TTC target of 50bps. Stage 1 loan share decreased to 81.5% from 82.1% in Q4 23 and 83.6% in Q1 23, while coverage rose to 1.3% from 1.2% and 0.8%, respectively. Stage 2 loan share increased to 10.4% from 9.9% YE23 and 9.2% a year earlier, while coverage dropped from 12.8% YE23 to 12%, still exceeding 10.5% Q1 23. Stage 3 loan share increased from 8.1% to 8.2% sequentially, which is 100bps higher than Q1 23, whilst coverage increased from 50.3% to 52.4%, slightly less than 52.5% a year earlier. We calculate a modest provision deficit of -0.4% of total loans vs. our acid test (1% of stage 1, 12% of stage 2 and 60% of stage 3) vs -0.6% in Q4 23 and -0.8% in Q4 22.

BUY

JOD 4.0

Banks / JORDAN

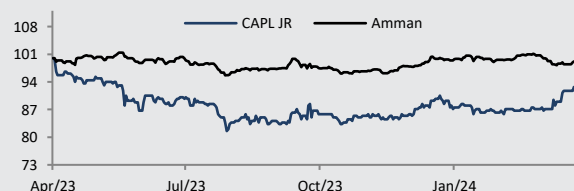
| | |
|----------------|---------|
| Bloomberg code | CAPL JR |
| Market index | Amman |
| Target Price | 4.0 |
| Upside (%) | 97.8 |

Market data 5/16/2024

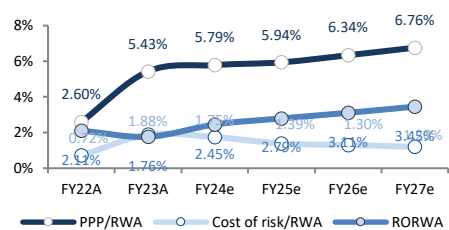
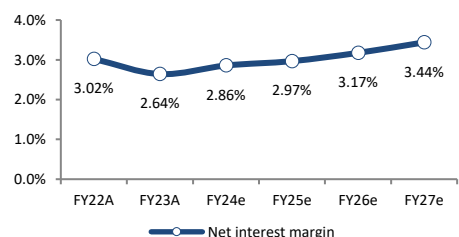
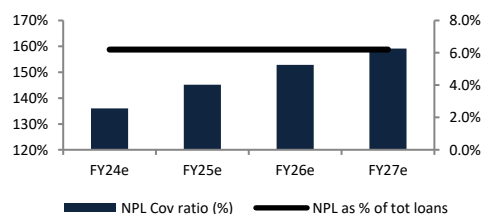
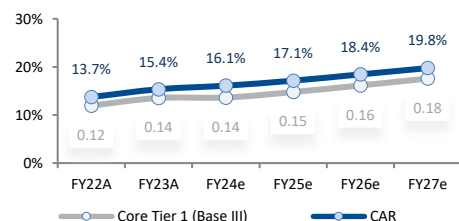
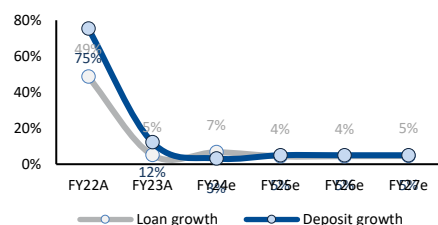
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|------------------------------------|---------|
| Last closing price | 2.0 |
| 52 Week range | 1.9-2.2 |
| Market cap (JOD m) | 526 |
| Market cap (USD m) | 742 |
| Average Daily Traded Value (JOD m) | 0.00 |
| Average Daily Traded Value (USD m) | 0.10 |
| Free float (%) | 46% |

| Year-end (local m) | 2022 | 2023 | 2024e | 2025e |
|---------------------------|------|--------|-------|-------|
| Revenue | 211 | 347 | 386 | 414 |
| Pre-provisioning profit | 103 | 212 | 241 | 260 |
| EPS | 0.37 | 0.26 | 0.39 | 0.46 |
| P/E (x) (mkt price) | 5.4 | 7.7 | 5.2 | 4.3 |
| BVPS | 2.7 | 2.5 | 2.7 | 3.0 |
| Tangible BVPS | 2.5 | 2.2 | 2.5 | 2.8 |
| P/B (x) (mkt price) | 0.7 | 0.8 | 0.7 | 0.7 |
| P/TBVPS (x) (mkt price) | 0.8 | 0.9 | 0.8 | 0.7 |
| DPS | 0.17 | 0.15 | 0.17 | 0.19 |
| Div. yield (%) | 8.7 | 7.5 | 8.3 | 9.3 |
| EPPS | 0.01 | (0.06) | 0.05 | 0.09 |
| RoAA (%) | 1.5 | 0.9 | 1.3 | 1.5 |
| RoRWA (%) | 2.1 | 1.8 | 2.5 | 2.8 |
| RoATE (%) | 18.9 | 12.0 | 16.3 | 17.3 |
| RoEcc (%) | 16.6 | 12.7 | 18.4 | 20.7 |
| RAROC (%) | 10.6 | 13.1 | 17.8 | 17.0 |
| Net LtD ratio (%) | 67.2 | 62.9 | 65.0 | 64.7 |
| Risk Weighted Assets (bn) | 4.0 | 3.9 | 4.2 | 4.4 |
| Core Equity T1 ratio (%) | 12.0 | 13.5 | 13.6 | 14.8 |
| Tier 1 capital ratio (%) | 12.9 | 14.2 | 15.3 | 16.4 |
| Total capital ratio (%) | 13.7 | 15.4 | 16.1 | 17.1 |
| NPL ratio (%) | 6.2 | 6.1 | 6.2 | 6.2 |
| Coverage ratio (%) | 88.9 | 102.4 | 136.0 | 145.1 |
| Number of shares | 226 | 263 | 263 | 263 |

Price Performance



Abacus Arqaam Capital Fundamental Data

Profitability

NIM

Credit Quality

Capital Ratios

Growth

CAPITAL BANK OF JORDAN

| Year-end | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
|--|-------|-------|-------|--------|-------|-------|
| Performance analysis | | | | | | |
| Net Interest Margin (%) | 3.02 | 2.64 | 2.86 | 2.97 | 3.17 | 3.44 |
| Asset yield (%) | 6.09 | 6.33 | 6.53 | 6.40 | 6.21 | 5.95 |
| Cost of Funds (%) | 3.45 | 4.17 | 4.17 | 3.88 | 3.46 | 2.89 |
| Risk Adjusted Margins (%) | 2.48 | 1.55 | 1.85 | 2.17 | 2.43 | 2.75 |
| Cost / Income (%) | 50.9 | 38.9 | 37.6 | 37.4 | 36.3 | 34.9 |
| Net Interest Income / total income (%) | 75.6 | 51.4 | 53.6 | 54.5 | 56.1 | 58.0 |
| Fees & Commissions / operating income (%) | 16.9 | 41.0 | 42.0 | 41.1 | 39.4 | 37.6 |
| Trading gains / operating income (%) | (0.3) | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| RoATE (%) | 18.9 | 12.0 | 16.3 | 17.3 | 17.8 | 18.5 |
| Pre-prov. RoATE (%) | 20.2 | 24.1 | 26.4 | 24.5 | 23.9 | 23.5 |
| RoAA (%) | 1.5 | 0.9 | 1.3 | 1.5 | 1.6 | 1.8 |
| Revenue / RWA (%) | 5.28 | 8.89 | 9.27 | 9.49 | 9.95 | 10.39 |
| Costs / RWA (%) | 2.69 | 3.46 | 3.48 | 3.55 | 3.62 | 3.63 |
| PPP / RWA (%) | 2.60 | 5.43 | 5.79 | 5.94 | 6.34 | 6.76 |
| Cost of Risk / RWA (%) | 0.72 | 1.88 | 1.75 | 1.39 | 1.30 | 1.20 |
| RoRWA (%) | 2.11 | 1.76 | 2.45 | 2.79 | 3.11 | 3.45 |
| RoRWA (%) (adj. for gross-up of associates) | 2.11 | 1.76 | 2.45 | 2.79 | 3.11 | 3.45 |
| Year-end | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
| Asset Quality | | | | | | |
| Provisions charge / avg. gross loans (%) | 1.0 | 2.0 | 1.9 | 1.5 | 1.4 | 1.3 |
| Past due not impaired / gross loans (%) | 3.4 | 5.3 | 5.9 | 6.7 | 7.3 | 7.7 |
| NPL / gross loans (%) | 6.2 | 6.1 | 6.2 | 6.2 | 6.2 | 6.2 |
| NPL coverage ratio (%) | 88.9 | 102.4 | 136.0 | 145.1 | 152.8 | 159.2 |
| Provisions / avg. gross loans (%) | 3.4 | 5.3 | 5.9 | 6.7 | 7.3 | 7.7 |
| Provisions charge / operating income (%) | 27.7 | 34.7 | 31.1 | 23.9 | 21.1 | 18.2 |
| Year-end | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
| Funding and Liquidity | | | | | | |
| Net Loans / Deposits (%) | 67.2 | 62.9 | 65.0 | 64.7 | 64.3 | 64.0 |
| Cash and interbank / assets (%) ^[1] | 12.2 | 17.6 | 15.6 | 16.1 | 16.7 | 17.3 |
| Deposits / liabilities (%) | 77.1 | 79.4 | 77.2 | 77.6 | 78.1 | 78.6 |
| Year-end | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
| Capital and leverage ratios | | | | | | |
| Core Tier 1 ratio (Basel III) (%) | 12.0 | 13.5 | 13.6 | 14.8 | 16.1 | 17.6 |
| Tier 1 ratio (%) | 12.9 | 14.2 | 15.3 | 16.4 | 17.7 | 19.0 |
| Total capital ratio (%) | 13.7 | 15.4 | 16.1 | 17.1 | 18.4 | 19.8 |
| Tangible equity / assets (%) | 9.4 | 9.6 | 9.5 | 9.9 | 10.5 | 11.1 |
| RWA / assets (%) | 57.3 | 51.4 | 51.7 | 51.7 | 51.3 | 51.6 |
| Year-end | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
| Growth | | | | | | |
| Revenues (%) | 53.1 | 64.7 | 11.2 | 7.5 | 9.4 | 10.2 |
| Cost (%) | 48.3 | 26.0 | 7.4 | 6.9 | 6.3 | 5.9 |
| Pre-Provision Operating Profit Growth (%) | 58.5 | 104.8 | 13.6 | 7.8 | 11.2 | 12.7 |
| Provisions (%) | 43.4 | 156.7 | (1.0) | (16.7) | (2.0) | (2.5) |
| Net Profit (%) | 48.9 | 17.3 | 32.2 | 18.6 | 15.3 | 16.7 |
| Assets (%) | 61.4 | 9.1 | 6.0 | 5.0 | 5.0 | 5.0 |
| Loans (%) | 48.6 | 5.1 | 6.7 | 4.4 | 4.5 | 4.6 |
| Deposits (%) | 75.4 | 12.2 | 3.2 | 5.0 | 5.0 | 5.0 |
| Risk Weighted Assets (%) | 67.1 | (2.1) | 6.6 | 5.0 | 4.2 | 5.6 |

Abacus Arqaam Capital Fundamental Data

Company Profile

The bank is a public shareholding company registered and incorporated in Jordan in 1995. The bank provides its banking services through its 33 branches located in Jordan along with its subsidiaries, The National Bank of Iraq in Iraq (30 branches), Capital Investments in Jordan and Dubai International Finance Center (DIFC), Capital Leasing in Jordan, National Iraqi Instalments (51% stake), and one branch in Riyadh through NBI.

With USD 11.1bn in assets, it ranks the third bank after Arab Bank (40.6b), Housing Bank (12.7), but ahead of Bank al Etihad (10.7b) and Jordan Kuwait Bank (7.3bn).

In February 2022, Capital Bank Group bolstered its capital base with the issuance of a Tier 1 perpetual bond for USD 100m. The bond is the first issuance of its kind for a Jordanian bank in the local market and the first by a Jordanian Company to be listed in the region's international financial market – NASDAQ Dubai. Coupon Rate of 7%.

PIF is a strategic investor with a 24% stake, helping with the funding of the acquisition of Société Générale de Banque Jordanie.

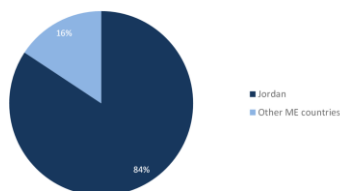
In 2023, Capital Bank expanded into leasing in Iraq and expand its leasing operations in Jordan.

CAPL has secured a Ba3 from Moody's with a stable outlook.

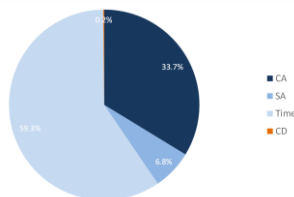
All Board of Directors are non-executive, and 4 out of the 13 are independent.

Capital Bank implements a regular Environmental & Social performance assessment through an E&S board-approved policy that is based on IFC standards

Geographical breakdown (Credit)



Deposit breakdown



Management

Chairman, Non-Executive: Bassem Al-Salem
CEO: Tamer Ghazaleh

Major Shareholders

| | |
|------------------------------|--------|
| Public Investment Fund (PIF) | 23.97% |
| Saad Asem Aljanabi | 7.42% |
| Social Security Corp | 7.19% |
| Said Samih Darwazeh | 5.36% |

CAPITAL BANK OF JORDAN

| Year-end | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
|---------------------------------------|------------|------------|------------|------------|------------|------------|
| Income statement (JODmn) | | | | | | |
| Interest income | 321 | 427 | 473 | 487 | 497 | 501 |
| Interest expense | 161 | 249 | 266 | 261 | 243 | 212 |
| Net Interest Income | 159 | 178 | 207 | 226 | 254 | 290 |
| Fee income | 36 | 142 | 162 | 170 | 179 | 188 |
| Net investment income | (1) | - | 1 | 1 | 1 | 1 |
| Other operating income | 17 | 26 | 16 | 17 | 19 | 21 |
| Total operating income | 211 | 347 | 386 | 414 | 453 | 500 |
| Total operating expenses | 107 | 135 | 145 | 155 | 165 | 174 |
| Pre-provision operating profit | 103 | 212 | 241 | 260 | 289 | 325 |
| Net provisions | 29 | 73 | 73 | 61 | 59 | 58 |
| Other provisions / impairment | 3 | 11 | 2 | 2 | 2 | 3 |
| Operating profit | 72 | 127 | 166 | 197 | 227 | 265 |
| Associates | - | - | - | - | - | - |
| Pre-tax profit | 72 | 127 | 166 | 197 | 227 | 265 |
| Taxation | 6 | 21 | 25 | 29 | 34 | 40 |
| Net profit | 91 | 107 | 141 | 167 | 193 | 225 |
| Minorities | 4 | 35 | 34 | 40 | 46 | 54 |
| ADT1 coupon | - | - | 5 | 5 | 5 | 5 |
| Others | - | - | - | - | - | - |
| Attributable net profit | 84 | 69 | 102 | 122 | 142 | 166 |
| Diluted EPS | 0.37 | 0.26 | 0.39 | 0.46 | 0.54 | 0.63 |
| DPS | 0.17 | 0.15 | 0.17 | 0.19 | 0.22 | 0.24 |
| BVPS | 2.73 | 2.50 | 2.72 | 3.00 | 3.33 | 3.72 |
| Tangible BVPS | 2.47 | 2.24 | 2.52 | 2.84 | 3.19 | 3.62 |

| Year-end | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Balance sheet (JODmn) | | | | | | |
| Gross loans and advances | 3,513 | 3,715 | 3,938 | 4,135 | 4,342 | 4,559 |
| Less: loan loss provisions | 248 | 284 | 279 | 316 | 352 | 388 |
| Net loans and advances | 3,265 | 3,431 | 3,660 | 3,819 | 3,990 | 4,171 |
| Cash and central bank | 781 | 1,319 | 1,021 | 1,111 | 1,201 | 1,290 |
| Due from banks | 220 | 165 | 583 | 613 | 643 | 675 |
| Investment, net | 2,225 | 2,197 | 2,207 | 2,318 | 2,434 | 2,555 |
| Fixed assets, net | 113 | 116 | 120 | 123 | 127 | 131 |
| Other assets | 296 | 296 | 402 | 423 | 444 | 466 |
| Total assets | 6,958 | 7,592 | 8,048 | 8,450 | 8,873 | 9,317 |
| Customer deposits | 4,860 | 5,453 | 5,626 | 5,907 | 6,203 | 6,513 |
| Due to banks | 149 | 146 | 353 | 363 | 366 | 354 |
| Debt | 755 | 601 | 601 | 601 | 601 | 601 |
| Other liabilities | 541 | 664 | 704 | 739 | 776 | 815 |
| Total liabilities | 6,305 | 6,864 | 7,283 | 7,610 | 7,945 | 8,282 |
| Total equity | 653 | 728 | 765 | 840 | 928 | 1,035 |
| Risk Weighted Assets (bn) | 4 | 4 | 4 | 4 | 5 | 5 |
| Average Interest-Earning Assets | 5,266 | 6,750 | 7,240 | 7,613 | 8,009 | 8,421 |
| Average Interest-Bearing Liabilities | 4,679 | 5,982 | 6,390 | 6,726 | 7,020 | 7,318 |
| Common shareholders | 559 | 590 | 662 | 746 | 840 | 951 |
| Core Equity Tier 1 (Basel III) | 477 | 528 | 567 | 645 | 735 | 845 |
| Tier 1 capital | 513 | 554 | 638 | 716 | 806 | 916 |

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Strong internal capital generation in Q1. Despite RWA growth of 3.7% q/q (vs. asset growth of 3.5%) and cash dividends paid during Q1, Tier 1 and CAR improved from 14.2% and 15.4% in YE 23 (13.6% and 14.4% in Q1 23) to 14.5 % and 15.5%, vs a minimum of 12% and 14.375%, respectively, with RoE of 22.5% in Q1 24. The LCR and NSFR stood at 204% (219% YE 23) and 133% (132% YE22), respectively, and the LtD at 70.6% (68.1% YE 23).

Low valuation unwarranted by RoE and EPS growth. The stock trades at an undemanding FY25e P/E of 4.3x and FY 24 P/tNAV of 0.8x, with a DY c.8-9% in FY24e. Our TP of JOD 4.0 offers a substantial upside.

Medium / Long Term Guidance – 2026:

- Total assets CAGR > 8%
- C/I < 40%
- CAR> 15%
- RoE > 16%
- DPO: 25-50%

Exhibit 1: Capital Bank of Jordan Q1 24A review

| JODm | Q1 24A | AC Q1 24e | vs. AC | Q4 23A | q/q 23 | Q1 23A | Q4 22A | q/q 23 | y/y Q1 |
|----------------------------|--------------|--------------|---------------|--------------|---------------|--------------|--------------|----------------|---------------|
| Interest Income | 117 | 115 | 1.5% | 112 | 4.5% | 106 | 104 | 1.6% | 11.0% |
| Interest expense | 65 | 66 | (1.9%) | 62 | 4.9% | 61 | 53 | 13.9% | 6.1% |
| Net interest income | 53 | 50 | 6.0% | 51 | 4.0% | 45 | 50 | (11.4%) | 17.7% |
| Fee Income | 51.64 | 34 | 51.9% | 46 | 11.2% | 18 | 12 | 45.4% | 187.6% |
| Net Trading Income | 0 | 0 | nm | 0 | nm | 0 | 1 | nm | nm |
| Other Income | 6 | 4 | 40.6% | 5 | 13.5% | 6 | 1 | 571.3% | (7.0%) |
| Non-Interest income | 57 | 38 | 49.6% | 51 | 11.4% | 24 | 14 | 76.3% | 136.2% |
| Total income | 110 | 88 | 24.9% | 102 | 7.7% | 69 | 64 | 7.4% | 59.3% |
| Operating expenses | 33 | 35 | (4.6%) | 44 | (24.7%) | 28 | 33 | (16.4%) | 18.1% |
| Operating profit | 77 | 53 | 44.1% | 58 | 32.1% | 41 | 31 | 33.2% | 87.4% |
| LLP | 16 | 13 | 22.0% | 30 | (47.3%) | 9 | 22 | (57.9%) | 67.5% |
| Taxes | 11 | 6 | 80.1% | -2 | nm | 4 | -4 | (208.9%) | 175.5% |
| Group Net income | 49 | 34 | 44.1% | 24 | 101.4% | 26 | 9 | 205.4% | 88.2% |
| Attributable NI | 33.8 | 25.7 | 31.5% | 10.9 | 209.2% | 23.0 | 8.8 | 162.4% | 46.8% |
| Annualised NIMs | 2.91% | 3.85% | | 2.86% | | 2.64% | 3.17% | | |
| Cost/income | 30.0% | 39.3% | | 42.9% | | 40.5% | 52.1% | | |
| Loans to deposits | 70.6% | 68.6% | | 68.1% | | 71.0% | 72.3% | | |
| Annualized LLP | 1.67% | 1.38% | | 3.24% | | 0.99% | 2.56% | | |
| Gross Loans | 3,808 | 3,771 | 1.0% | 3,715 | 2.5% | 3,807 | 3,513 | | 0.0% |
| Net Loans | 3,505 | 3,491 | 0.4% | 3,431 | 2.1% | 3,546 | 3,265 | | (1.2%) |
| Customer deposits | 5,391 | 5,496 | (1.9%) | 5,453 | (1.1%) | 5,363 | 4,860 | | 0.5% |

Source: Company Data, Arqaam Capital Research

Exhibit 2: Earnings estimate changes

| JOD m | FY 24e | | | FY 25e | | | FY 26e | | | FY 27e | | | FY 28e | | |
|----------------------------|------------|------------|--------------|------------|------------|---------------|------------|------------|---------------|------------|------------|-------------|------------|------------|-------------|
| | New | Old | Δ | New | Old | Δ | New | Old | Δ | New | Old | Δ | i | Old | Δ |
| Net interest income | 207 | 200 | 3.5% | 226 | 231 | (2.4%) | 254 | 259 | (1.9%) | 290 | 274 | 5.7% | 306 | 289 | 5.9% |
| Fee income | 162 | 139 | 16.3% | 170 | 153 | 11.0% | 179 | 169 | 6.0% | 188 | 185 | 1.2% | 197 | 204 | (3.4%) |
| Investment income | 1 | 1 | — | 1 | 1 | — | 1 | 1 | — | 1 | 1 | — | 1 | 1 | — |
| Non-interest income | 179 | 156 | 14.6% | 189 | 172 | 9.9% | 199 | 189 | 5.3% | 210 | 208 | 1.0% | 222 | 229 | (3.1%) |
| Total income | 386 | 356 | 8.4% | 414 | 403 | 2.8% | 453 | 448 | 1.1% | 500 | 482 | 3.7% | 528 | 518 | 1.9% |
| Opex | 145 | 143 | 1.1% | 155 | 153 | 1.1% | 165 | 163 | 1.1% | 174 | 172 | 1.1% | 184 | 182 | 1.1% |
| Operating income | 241 | 213 | 13.2% | 260 | 250 | 3.8% | 289 | 285 | 1.1% | 325 | 309 | 5.1% | 344 | 336 | 2.4% |
| Loan loss provision | 73 | 54 | 35.7% | 61 | 52 | 15.4% | 59 | 51 | 16.7% | 58 | 49 | 18.2% | 56 | 51 | 9.1% |
| Other provision | 2 | — | — | 2 | — | — | 2 | — | — | 3 | — | — | 3 | — | — |
| Net income reported | 107 | 103 | 4.2% | 127 | 128 | (0.4%) | 146 | 151 | (3.3%) | 171 | 168 | 1.6% | 184 | 184 | 0.2% |
| Net income adjusted | 102 | 98 | 4.5% | 122 | 123 | (0.4%) | 142 | 147 | (3.4%) | 166 | 163 | 1.7% | 179 | 179 | 0.2% |
| Ratios | | | | | | | | | | | | | | | |
| NIM | 2.86% | 2.76% | 0.10% | 2.97% | 3.04% | -0.07% | 3.17% | 3.24% | -0.06% | 3.44% | 3.25% | 0.18% | 3.46% | 3.27% | 0.19% |
| Cost/income | 37.6% | 40.3% | (2.7%) | 37.4% | 38.0% | (0.6%) | 36.3% | 36.3% | (0.0%) | 34.9% | 35.8% | (0.9%) | 34.9% | 35.1% | (0.3%) |
| LLP | 1.90% | 1.40% | 0.50% | 1.50% | 1.30% | 0.20% | 1.40% | 1.20% | 0.20% | 1.30% | 1.10% | 0.20% | 1.20% | 1.10% | 0.10% |
| NPL | 3.0% | 3.0% | 0.00% | 3.0% | 3.0% | 0.00% | 3.0% | 3.0% | 0.00% | 3.0% | 3.0% | 0.00% | 3.0% | 3.0% | 0.00% |
| Coverage | 136.0% | 131.2% | 4.84% | 145.1% | 138.6% | 6.54% | 152.8% | 144.6% | 8.17% | 159.2% | 149.4% | 9.71% | 164.2% | 154.0% | 10.22% |
| Growth | | | | | | | | | | | | | | | |
| Assets | 6% | 6% | — | 5% | 5% | — | 5% | 5% | — | 5% | 5% | — | 5% | 5% | — |
| Loan | 6% | 6% | — | 5% | 5% | — | 5% | 5% | — | 5% | 5% | — | 5% | 5% | — |
| Deposit | 3% | 3% | — | 5% | 5% | — | 5% | 5% | — | 5% | 5% | — | 5% | 5% | — |
| AED | | | | | | | | | | | | | | | |
| EPS | 0.39 | 0.37 | 4.5% | 0.46 | 0.47 | (0.4%) | 0.54 | 0.56 | (3.4%) | 0.63 | 0.62 | 1.7% | 0.68 | 0.68 | 0.2% |
| TP | 4.0 | 4.0 | (2.0%) | | | | | | | | | | | | |

Source: Company Data, Arqaam Capital Research

Exhibit 3: Capital Bank of Jordan EVA

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e | 2028e | perp | subtotal | % of total |
|---|------------|------------|------------|------------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|-------|------------|--------------|
| 1. DCF | | | | | | | | | | | | | | | | |
| Net profit | 12 | 24 | 31 | 25 | 26 | 79 | 84 | 69 | 102 | 122 | 142 | 166 | 179 | 185 | | |
| Other adjustments (comprehensive income and GW amor) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | | |
| Minus: excess return excess capital | 8 | 9 | 8 | 9 | 5 | 3 | 5 | 9 | 10 | 13 | 17 | 22 | 27 | 28 | | |
| Risk free rate | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | | |
| Tax shelter | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | | |
| Adjusted net profit | 5 | 16 | 23 | 16 | 21 | 76 | 80 | 60 | 92 | 109 | 124 | 144 | 152 | 157 | | |
| Capital requirements | 191 | 182 | 178 | 196 | 219 | 286 | 478 | 468 | 499 | 524 | 546 | 577 | 606 | 624 | | |
| RoECC | 2.5% | 8.7% | 13.0% | 8.3% | 9.4% | 26.6% | 16.6% | 12.7% | 18.4% | 20.7% | 22.7% | 24.9% | 25.1% | 25.1% | | |
| Cost of capital | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | | |
| Capital charge | 31 | 29 | 29 | 31 | 35 | 46 | 76 | 75 | 80 | 84 | 87 | 92 | 97 | 100 | | |
| Economic profit | (26) | (13) | (5) | (15) | (15) | 30 | 3 | (15) | 12 | 25 | 37 | 52 | 55 | 57 | | |
| Discount factor | -- | -- | -- | -- | -- | -- | -- | -- | 1.00 | 0.86 | 0.74 | 0.64 | 0.55 | 0.48 | | |
| NPV of Economic Profit | -- | -- | -- | -- | -- | -- | -- | -- | 12 | 21 | 27 | 33 | 30 | 27 | | |
| DCF EVA Forecast period | | | | | | | | | | | | | | | 151 | 14.5% |
| Perpetual growth rate (nominal GDP) | | | | | | | | | | | | | | | 3.0% | |
| Terminal Value | | | | | | | | | | | | | | | 437 | |
| Terminal value discounted | | | | | | | | | | | | | | | 208 | 20.0% |
| Required Capital | | | | | | | | | | | | | | | 468 | 45.0% |
| Value of the bank operations | | | | | | | | | | | | | | | 827 | 79.5% |
| 2. Capital surplus/deficit | | | | | | | | | | | | | | | | |
| Available capital: | | | | | | | | | | | | | | | | |
| Shareholders equity | 278 | 292 | 287 | 294 | 307 | 363 | 617 | 658 | 716 | 790 | 875 | 979 | 1,091 | | | |
| Minorities | 56 | 58 | 50 | 54 | 48 | 29 | 35 | 71 | 48 | 51 | 53 | 56 | 59 | | | |
| Less Goodwill & intangibles | (6) | (6) | (11) | (3) | (22) | (31) | (58) | (68) | (54) | (43) | (35) | (28) | (22) | | | |
| Less non equity elements reported shareholders equity | | | | | | | | | | | | | | | | |
| Less Dividends (If included in reported equity) | (10) | (20) | (20) | -- | (24) | (30) | (39) | (39) | (43) | (49) | (57) | (62) | (67) | | | |
| Tangible equity | 319 | 324 | 306 | 344 | 310 | 332 | 555 | 621 | 667 | 748 | 837 | 945 | 1,061 | | | |
| Capital needs | | | | | | | | | | | | | | | | |
| RWAs (Basel II) | 1,590 | 1,514 | 1,486 | 1,630 | 1,826 | 2,385 | 3,984 | 3,901 | 4,160 | 4,369 | 4,553 | 4,809 | 5,046 | | | |
| RWAs (Basel III) | 1,590 | 1,514 | 1,486 | 1,630 | 1,826 | 2,385 | 3,984 | 3,901 | 4,160 | 4,369 | 4,553 | 4,809 | 5,046 | | | |
| Equity as % RWA | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | | | |
| Financial stakes | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | | | |
| Capital Requirements | 191 | 182 | 178 | 196 | 219 | 286 | 478 | 468 | 499 | 524 | 546 | 577 | 606 | | | |
| Surplus capital | 128 | 142 | 128 | 149 | 91 | 46 | 77 | 153 | 168 | 224 | 290 | 368 | 455 | | 153 | 14.7% |
| 3. Other adjustments | | | | | | | | | | | | | | | | |
| ADT1 | | | | | | | | | | | | | | | 35 | |
| Underprovisioning | | | | | | | | | | | | | | | (15) | |
| Total adjustments | | | | | | | | | | | | | | | 20 | 1.9% |
| 4. Dividends | | | | | | | | | | | | | | | | |
| Total Fair Value | | | | | | | | | | | | | | | 39 | 3.8% |
| Fully diluted number of shares | | | | | | | | | | | | | | | 1,040 | 100% |
| Fair value per share | | | | | | | | | | | | | | | 263 | |
| Current share price | | | | | | | | | | | | | | | 4.0 | |
| Upside | | | | | | | | | | | | | | | 2.0 | |
| Implied P/E (x) | 63.6 | 32.5 | 25.6 | 31.5 | 30.5 | 10.0 | 10.6 | 15.1 | 10.2 | 8.5 | 7.4 | 6.3 | 5.8 | | 97.8% | |
| Implied P/NAV (x) | 2.9 | 2.8 | 2.9 | 2.7 | 2.8 | 2.4 | 1.6 | 1.8 | 1.6 | 1.4 | 1.2 | 1.1 | 1.0 | | | |

Source: Company Data, Arqaam Capital Research

National Bank of Iraq (61.85% owned)

National Bank of Iraq (NBI) is one of the leading commercial banks in Iraq, offering various banking services. The Bank was established in 1995 and is headquartered in Baghdad, Iraq. NBI is publicly traded on the Iraq Stock Exchange (symbol: BNOI) and is ranked first amongst privately held banks in terms of total assets. Capital Bank of Jordan ('Capital Bank') owns a majority stake of c.62% in NBI. NBI provides innovative banking services through three main segments: personal, corporate, and SMEs. NBI also provides Brokerage Services, Leasing, Custody Services, and Investment Services (including trading in gold, foreign currency and oil). NBI has access to an extensive network of correspondent banks directly and through Capital Bank and solid relations with foreign and international development financial institutions such as Saudi Exim Bank, PROPARCO and the IFC.

Capital Investments (100% owned)

Headquartered in Jordan, with a wide-reaching presence across the Middle East, including offices in Dubai International Financial Center (DIFC), Capital Investments has been shaping and elevating the MENA region's financial services sector since its establishment in 2006. Capital Investments is a market leader in providing comprehensive investment banking services, from Asset Management and Brokerage to Corporate Financial Advisory, serving diverse local, regional, and international clientele and high-net-worth individuals.

Capital Leasing Co.(100% owned)

In a brief timeframe, Capital Leasing established itself in the market after its inception in 2017 and subsequent acquisition by Capital Bank of Jordan in 2022. The preference for leasing among customers in Jordan stems from its advantages, especially in real estate contracts, due to the benefits extended to lessors and lessees surpassing conventional bank mortgage loans. Lessors, usually real estate developers, benefit from tax exemptions when acquiring property through lease agreements, while lessees, the buyers, enjoy waived title deed transfer fees. Capital Leasing's portfolio has increased more than five times since its acquisition, with an anticipated opportunity for further growth due to the high demand for this specific lending approach. The portfolio has expanded to USD 84m.

Blink – The All Digital Neobank

Launched in February 2022, Blink targets customers within the consumer banking space in Jordan to elevate financial services through a seamless digital-only experience while supporting financial inclusion. Blink offers an entirely new and unique user interface and experience, positioning it as a challenger to the status quo and a disrupter reimagining how customers receive financial services. Blink focuses on simple and transparent ways of banking to foster financial literacy, educate customers, and empower them to get financial freedom. Blink offers end-to-end digital onboarding and eKYC, a full-fledged bank account with an IBAN, virtual and physical debit and credit cards facilitating online and offline payments with the ability to manage cards digitally, money transfers, contactless payment through Apple Pay and eVouchers. Blink has also partnered with players outside the financial services industry to bring lifestyle value-added services to its customers through promotions, discounts, cash back, etc. Blink is the first bank in Jordan to integrate with Royal Jordanian, allowing customers to book their flights directly from the Blink app.

ESG framework

During the second quarter of 2023, Capital Bank published its first sustainability report in line with the standards and guidelines of the Global Reporting Initiative (GRI) and the United Nations' Sustainable Development Goals 2030 (UNSDGs). The report outlines the Bank's approach to addressing the impact of its activities on the environment and society, highlighting the achievements and aspirations for sustainable development and growth. The report also highlights the Bank's approach to sustainability, which revolves around three pillars and is focused on ten material topics: Pillar 1 – Environmental: Climate Action and Protecting the Environment: a. Climate Change and Decarbonisation b. Environmental Management Pillar 2 – Social: Creating Value for Our People and Communities: a. Workforce Development and Inclusion b. Local Communities c. Financial Inclusion & Literacy d. SME Growth e. Customer Experience and Satisfaction Pillar 3 – Governance: Implementing Robust and Responsible Corporate Governance: a. Data Security b. Innovation and Digitisation c. Incorporation of ESG Factors in Credit Analysis.

Jordan Macro Background

Jordan established a track record of fiscal reform implementation and prudence (backed by the IMF), which will likely contribute to a further narrowing its fiscal deficit and a decline in government debt over the next few years.

Jordan's annual inflation rate is projected at 2.7% for 2024. Pressure from housing prices and utilities, notably fuels and electricity, mostly affects the rate.

Foreign Currency Reserves are expected to reach USD 17.0 billion in 2024 – an increase of almost 3% from year-end of 2023, which amounted to USD 16.5 billion.

Exhibit 4: Jordan's key stats

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|------|------|-------|------|------|------|------|------|------|------|------|------|
| Real Growth GDP | 1.9 | 1.8 | -1.1 | 3.7 | 2.4 | 2.6 | 2.6 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Total investment rate | 19.8 | 18.8 | 18.4 | 18.3 | 18.6 | 17.6 | 18.1 | 17.4 | 17.3 | 17.7 | 17.7 | 17.4 |
| Gross national savings rate | 12.9 | 17.0 | 13.0 | 11.6 | 10.6 | 10.6 | 11.7 | 12.9 | 13.3 | 13.6 | 13.3 | 13.1 |
| Inflation, average consumer prices | 4.5 | 0.7 | 0.4 | 1.3 | 4.2 | 2.2 | 2.7 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| Volume of imports of goods and services | -1.4 | 2.1 | -16.8 | 19.3 | 7.3 | 3.4 | 1.8 | 2.7 | 3.0 | 3.2 | 3.2 | 3.2 |
| Volume of exports of goods and services | 0.7 | 12.0 | -15.8 | 7.8 | 18.4 | 4.8 | 0.6 | 4.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Unemployment rate | 18.6 | 19.1 | 22.7 | 24.1 | 22.9 | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| General government revenue | 25.5 | 24.3 | 22.7 | 24.7 | 25.7 | 26.1 | 26.7 | 27.0 | 27.2 | 27.6 | 27.6 | 27.5 |
| General government total expenditure | 30.1 | 30.0 | 31.2 | 32.3 | 32.6 | 33.4 | 34.4 | 32.3 | 32.0 | 30.9 | 30.1 | 28.8 |
| General government net lending/borrowing | -4.6 | -5.7 | -8.6 | -7.6 | -7.0 | -7.3 | -7.7 | -5.3 | -4.8 | -3.3 | -2.5 | -1.3 |
| General government structural balance | -2.2 | -3.6 | -6.4 | -4.9 | -7.1 | -6.7 | -6.8 | -6.3 | -5.9 | -4.5 | -3.7 | -2.6 |
| General government primary net lending/t | -1.4 | -2.2 | -4.5 | -3.3 | -2.7 | -2.7 | -2.4 | 0.1 | 0.7 | 1.4 | 1.9 | 2.9 |
| General government net debt | 73.2 | 77.3 | 87.2 | 89.1 | 91.1 | 90.6 | 90.8 | 89.7 | 86.9 | 80.0 | 78.3 | 73.0 |
| General government gross debt | 74.3 | 78.0 | 88.0 | 89.8 | 91.8 | 91.2 | 91.4 | 90.3 | 87.5 | 80.5 | 78.8 | 77.1 |
| Current account balance | -6.8 | -1.7 | -5.7 | -8.0 | -7.9 | -7.0 | -6.3 | -4.5 | -4.1 | -4.0 | -4.5 | -4.3 |

Source: International Monetary Fund, World Economic Outlook Database, April 2024

Iraqi economy highlights

Despite the growth in non-oil GDP, lower oil production coupled with foreign exchange (FX) market volatility (due to high controls embedded for Anti-Money Laundering and Combating the Financing of Terrorism on FX sales) resulted in real GDP contracting in 2023. In the context of a significant increase in government spending, non-oil GDP is expected to grow in 2024. This is anticipated to uphold robust growth and accordingly improve the overall real GDP.

Inflation remained elevated until 2022, fueled by rising energy prices, demand pressures, and high global commodity prices due to supply-side disruptions. The rate is forecasted at 4.4% for 2023 and is expected to drop to 4% in 2024.

In the past, record oil exports and high oil prices have brought in record oil revenues for the Iraqi government and pushed foreign reserves to their highest levels in more than two decades. Given the drop in oil production, foreign currency reserves will correlate with the oil GDP, which is expected to drop.

Exhibit 5: Iraq key stats

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|------|------|-------|------|------|------|------|------|-------|-------|-------|-------|
| Real Growth GDP | 4.7 | 5.4 | -12.1 | 1.6 | 7.0 | -2.2 | 1.4 | 5.3 | 3.8 | 3.6 | 3.6 | 3.6 |
| Gross national savings rate | 16.7 | 14.3 | 1.7 | 21.2 | 33.9 | 16.5 | 10.2 | 9.1 | 7.3 | 6.4 | 5.2 | 4.5 |
| Inflation, average consumer prices | 0.4 | -0.2 | 0.6 | 6.0 | 5.0 | 4.4 | 4.0 | 4.0 | 3.8 | 3.8 | 3.7 | 3.6 |
| General government revenue | 39.3 | 36.1 | 29.2 | 36.7 | 46.3 | 42.6 | 40.1 | 38.4 | 36.6 | 35.2 | 34.3 | 33.5 |
| General government total expenditure | 31.5 | 35.3 | 42.2 | 37.1 | 37.4 | 43.9 | 47.7 | 47.2 | 46.9 | 46.7 | 46.4 | 46.2 |
| General government net lending/borrowin | 7.8 | 0.8 | -12.9 | -0.4 | 8.9 | -1.3 | -7.6 | -8.8 | -10.3 | -11.5 | -12.2 | -12.6 |
| General government primary net lending/t | 9.1 | 1.8 | -11.8 | 0.1 | 9.4 | -0.6 | -6.9 | -8.1 | -9.2 | -9.9 | -10.2 | -10.3 |
| General government gross debt | 47.7 | 44.1 | 77.0 | 58.9 | 43.3 | 44.2 | 48.2 | 54.6 | 62.3 | 70.5 | 78.7 | 86.7 |
| Current account balance | 3.9 | -0.7 | -15.0 | 6.9 | 16.8 | 2.6 | -3.6 | -5.1 | -6.7 | -7.4 | -8.3 | -8.8 |

Source: International Monetary Fund, World Economic Outlook Database, April 2024

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| | |
|------|-------------------|
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