Model Update and Q1 Review
May 23 2024

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CAPITAL BANK OF JORDAN

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

BUY **JOD 4.0**

- **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.

Banks / JORDAN

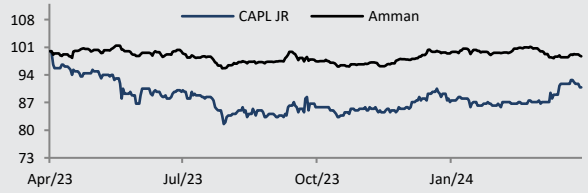
Bloomberg code	CAPL JR
Market index	Amman
Target Price	4.0
Upside (%)	97.8

Market data 5/16/2024

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



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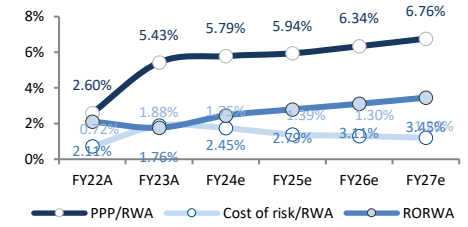
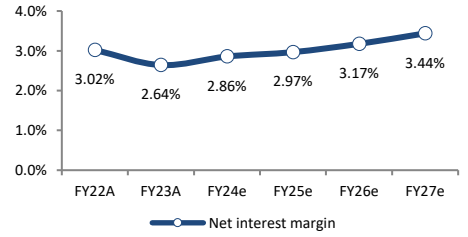
Abacus *Arqaam Capital Fundamental Data*

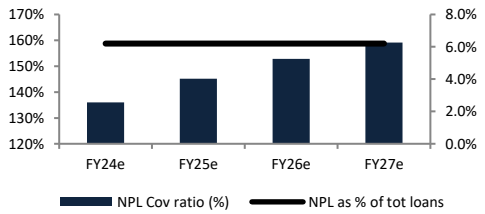
Profitability



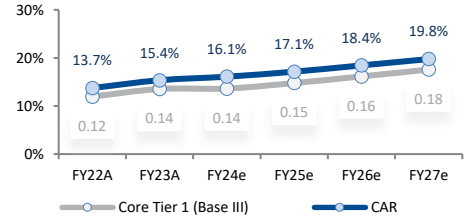
NIM



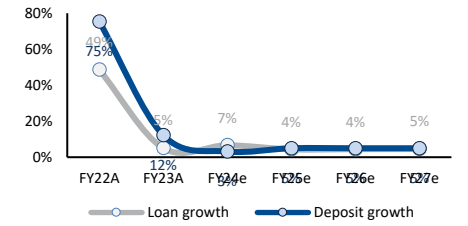
Credit Quality



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

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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.

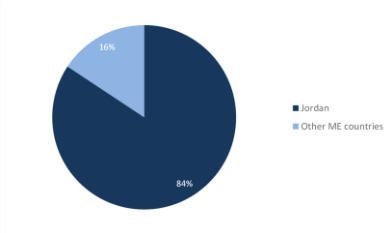
In 2023, Capital Bank expanded into leasing in Iraq and expand its leasing operations in Jordan.

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

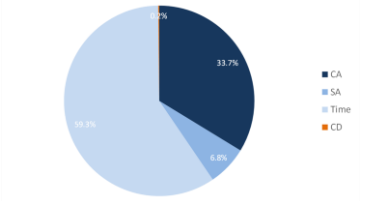
All Board of Directors are non-executive, and 4 out of the 13 are independent.

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 Invetsment 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

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Exhibit 2: Earnings estimate changes

	FY 24e			FY 25e			FY 26e			FY 27e			FY 28e		
JOD m	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															**39**	**3.8%**
Total Fair Value															**1,040**	**100%**
Fully diluted number of shares															263	
Fair value per share															**4.0**	
Current share price															**2.0**	
Upside															**97.8%**	
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			
Implied P/tNAV (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

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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.

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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/borrowin	-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/b	-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

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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/b	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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