Model Update and Q2 Review
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CAPITAL BANK OF JORDAN

Funding mix improves in Q2, lower rates will favour the bank given the ALM position with CoF adjusting quickly.

- **We increase our EPS forecasts by 7-8% for FY25-26e as we raise our NIM estimates by 12-26bps, reflecting our updated rate forecasts, increase non-funded income (+5%) for FY24e, despite one off cost incurred in Q2.**
- **We pencil in RoE24e of 16% (after ADT1 coupon payments), vs. 12% in FY23 and CAPL's MT/LT's target of >16%, on strong revenue generation supported by 33bps NIM expansion and 10% non-funded income growth.**
- **The stock remains compelling at 0.8x BV and P/E 25e of 3.7x vs. a mid-cycle RoE of c16-18% and FY26 target > 16%, recording the highest RoE in Jordan. Our TP of JOD 4.0 offers a significant upside.**

We increase our EPS forecasts by 7-8% in FY25-26e as we raise our NIM estimates by 12-26bps, reflecting our updated rate forecasts, and increase non-funded income (+5%), despite one-off cost incurred in Q2. We now assume 30bps lower rates in FY24e, 125bps in FY25e, and 75bps in FY26e (vs. nil rate change for FY24e, 50bps for FY25e, 75bps for FY26e and 100bps for FY27e, previously). We pencil in RoE24e of 16% (after ADT1 coupon payments), vs. 12% in FY23 and CAPL's MT/LT's target of >16%, on strong revenue generation supported by 33bps NIM expansion and 10% non-funded income growth. By FY27e, RoE is expected to reach 18%, benefiting from a lower rate environment and normalized CoR.

RoE stood at 7.4% in Q2, yet still at 16.6% in H1 due to one off costs of JOD 16.2m. Earnings declined by 40.4% in Q2 (-38.8% after ADT1 coupon payments) mainly on higher other costs (+14%), credit costs (+40.6%) and minority interest despite NIM expansion (+46bps). The higher other costs are due to a precautionary expense provision related to a financial penalty imposed by CBI on NBI (50% of the accrued expense), its subsidiary in Iraq, until the latter receives response to its letter. Sequentially, earnings dropped by 67.5% on similar dynamics, yet NIM contracted by 14bps q/q and non-NII decreased by 22.5% q/q.

NIM is still 46bps higher y/y in Q2 despite the sequential drop by 14bps. NIM dropped by 14bps q/q as the drop in asset yields (-24bps) more than offset the modest decline in CoF (-7bps), yet still higher by 46bps than the same period last year on higher asset yields (+25bps). As we update our interest rate scenario, we now pencil in 33bps expansion in FY24 and a cumulative expansion of 46bps in FY25-26 (vs. compression of 46bps during FY22-23) with a substantial negative 12-month ALM gap of 29.8%, with liabilities adjusting faster than assets.

Deposits pick up in Q2 with a better funding mix helped by robust CA inflows. We welcome the pick-up in deposits growth in Q2 (7.4% q/q vs. -1.1% in Q1), which was largely driven by CA inflows despite higher rates (16% q/q, contributing 73% to q/q growth). CASA share improved to 44% from 40% in Q1 and 42% YE 23. Meanwhile, the loan book expanded by 1.1% q/q (vs. 2.5% in Q1), solely driven by the retail segment (+5.5% q/q), which also leads YtD growth (8%, 59% of YtD growth) followed by large corporates (+3.5% YtD, 43%) and GRE (8.8%, 24%). Mortgages and SMEs were lower YtD by 5.8% and 4.9%, respectively. The bank's deposit market share was flat at 8.9%, while the loan market share slipped from 7.9% YE23 to 7.7%.

NPL formation picked up in Q2, yet CoR remains sufficient. NPL formation picked up in Q2 to 1.18% following -53bps in Q1 (91bps in Q2 23), while annualized CoR was way ahead at 2.2%, 1.7%, and 1.6%, respectively. We raise our CoR forecast by 5bps to 1.95%, broadly in line with H1 CoR of 1.94% and well above its TTC target of 50bps. Stage 1 loan share decreased to 80.7% from 81.5% in Q1 24 (82.7% Q2 23), while coverage dropped to 1 % from 1.3%, still above 0.8% a year earlier. Stage 2 loan share declined to 9.4% from 9.9% YE23 (still above 8.7% in Q2 23), while coverage improved to 14% from 12% (8.1%). Stage 3 loan share increased to 9.8% from 8.2% (8.6% a year earlier), while coverage dropped to 48% from 52.4% (50.3%). We calculate a provision deficit of -1% of total loans vs. our acid test (1% of stage 1, 12% of stage 2 and 60% of stage 3) vs -0.4% in Q1 24 and -1.4% a year earlier.

LtD dropped to 66.5% vs. 68.1% YE 23. Tier 1 and CAR dropped to 14.2% and 15.2% (vs. minimum thresholds of 12% and 14.375%), respectively, from 14.5% and 15.5% in Q1 24 (14.2% and 15.4% YE 23) as RWA grew by 4.9% q/q and 8.8% YtD (vs. asset growth of 4.1% and 7.7%, respectively). The LCR and NSFR stood at 216% (219% YE 23) and 134% (132% YE22), respectively, and the LtD at 66.5% (68.1% YE 23).

Low valuation unwarranted by RoE and EPS growth. The stock trades at an undemanding FY25e P/E of 3.8 x and FY 24 P/tNAV of 0.9x, with a DY c.8-9% in FY24e. Our TP of JOD 4.0 offers a substantial upside. We see the bank as well positioned to benefit from lower policy rates.

BUY **JOD 4.0**

Banks / JORDAN

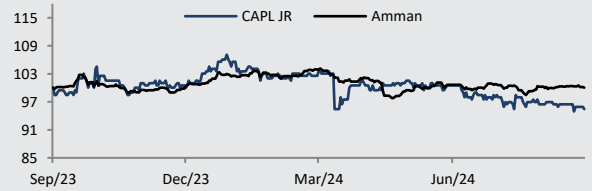
Bloomberg code	CAPL JR
Market index	Amman
Target Price	4.0
Upside (%)	116.4

Market data 9/30/2024

Last closing price	1.87
52 Week range	1.8-2.1
Market cap (JOD m)	492
Market cap (USD m)	694
Average Daily Traded Value (JOD m)	0.00
Average Daily Traded Value (USD m)	0.1
Free float (%)	46%

Year-end (local m)	2022	2023	2024e	2025e
Revenue	211	347	401	438
Pre-provisioning profit	103	212	247	285
EPS	0.37	0.26	0.37	0.50
P/E (x) (mkt price)	5.0	7.2	5.1	3.7
BVPS	2.7	2.5	2.7	3.0
Tangible BVPS	2.5	2.2	2.5	2.9
P/B (x) (mkt price)	0.7	0.7	0.7	0.6
P/TBVPS (x) (mkt price)	0.8	0.8	0.7	0.7
DPS	0.17	0.15	0.17	0.19
Div. yield (%)	9.3	8.0	8.8	9.9
EPPS	0.02	(0.05)	0.03	0.13
RoAA (%)	1.5	0.9	1.2	1.6
RoRWA (%)	2.1	1.8	2.3	3.0
RoATE (%)	18.9	12.0	15.6	18.7
RoEcC (%)	16.6	12.7	17.5	22.4
RAROC (%)	10.6	13.1	17.2	20.2
Net LtD ratio (%)	67.2	62.9	61.8	61.4
Risk Weighted Assets (bn)	4.0	3.9	4.2	4.4
Core Equity T1 ratio (%)	12.0	13.5	13.5	14.7
Tier 1 capital ratio (%)	12.9	14.2	15.2	16.3
Total capital ratio (%)	13.7	15.4	15.9	17.1
NPL ratio (%)	6.2	6.1	6.2	6.2
Coverage ratio (%)	88.9	102.4	136.0	146.6
Number of shares	226	263	263	263

Price Performance



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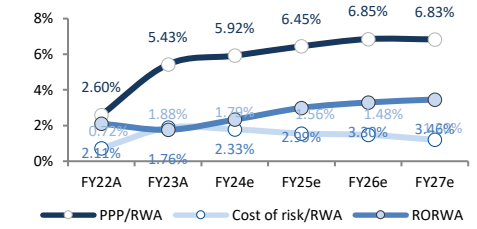
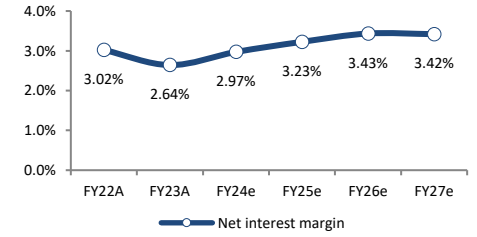
Abacus *Arqaam Capital Fundamental Data*

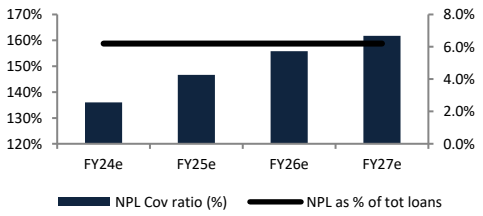
Profitability



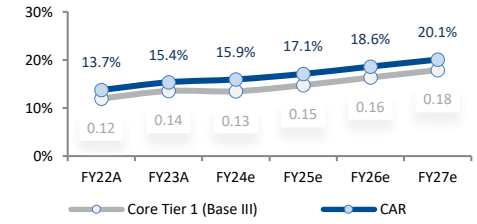
NIM



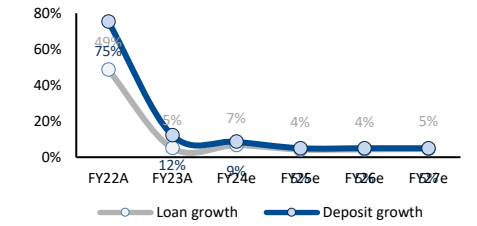
Credit Quality



Capital Ratios



Growth



CAPITAL BANK OF JORDAN

Year-end	2022	2023	2024e	2025e	2026e	2027e
Performance analysis						
Net Interest Margin (%)	3.02	2.64	2.97	3.23	3.43	3.42
Asset yield (%)	6.09	6.33	6.50	6.26	6.07	6.03
Cost of Funds (%)	3.45	4.17	4.00	3.43	3.01	3.01
Risk Adjusted Margins (%)	2.48	1.55	1.94	2.32	2.59	2.73
Cost / Income (%)	50.9	38.9	38.4	35.0	34.1	34.4
Net Interest Income / total income (%)	75.6	51.4	53.6	56.1	57.6	57.4
Fees & Commissions / operating income (%)	16.9	41.0	42.2	39.8	38.3	38.3
Trading gains / operating income (%)	(0.3)	0.5	0.5	0.4	0.4	0.4
RoATE (%)	18.9	12.0	15.6	18.7	18.8	18.3
Pre-prov. RoATE (%)	20.2	24.1	26.2	26.7	25.6	23.2
RoAA (%)	1.5	0.9	1.2	1.6	1.7	1.8
Revenue / RWA (%)	5.28	8.89	9.61	9.92	10.40	10.42
Costs / RWA (%)	2.69	3.46	3.69	3.48	3.55	3.59
PPP / RWA (%)	2.60	5.43	5.92	6.45	6.85	6.83
Cost of Risk / RWA (%)	0.72	1.88	1.79	1.56	1.48	1.20
RoRWA (%)	2.11	1.76	2.33	2.99	3.30	3.46
RoRWA (%) (adj. for gross-up of associates)	2.11	1.76	2.33	2.99	3.30	3.46

Year-end	2022	2023	2024e	2025e	2026e	2027e
Asset Quality						
Provisions charge / avg. gross loans (%)	1.0	2.0	2.0	1.7	1.6	1.3
Past due not impaired / gross loans (%)	3.4	5.3	5.9	6.7	7.4	7.9
NPL / gross loans (%)	6.2	6.1	6.2	6.2	6.2	6.2
NPL coverage ratio (%)	88.9	102.4	136.0	146.6	155.8	161.7
Provisions / avg. gross loans (%)	3.4	5.3	5.9	6.7	7.4	7.9
Provisions charge / operating income (%)	27.7	34.7	30.2	24.1	21.6	17.6

Year-end	2022	2023	2024e	2025e	2026e	2027e
Funding and Liquidity						
Net Loans / Deposits (%)	67.2	62.9	61.8	61.4	61.0	60.7
Cash and interbank / assets (%) [1]	12.2	17.6	19.2	19.9	20.6	21.2
Deposits / liabilities (%)	77.1	79.4	81.3	81.8	82.3	82.9

Year-end	2022	2023	2024e	2025e	2026e	2027e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	12.0	13.5	13.5	14.7	16.3	17.9
Tier 1 ratio (%)	12.9	14.2	15.2	16.3	17.9	19.4
Total capital ratio (%)	13.7	15.4	15.9	17.1	18.6	20.1
Tangible equity / assets (%)	9.4	9.6	9.4	10.0	10.6	11.3
RWA / assets (%)	57.3	51.4	51.8	52.2	51.8	51.6

Year-end	2022	2023	2024e	2025e	2026e	2027e
Growth						
Revenues (%)	53.1	64.7	15.6	9.2	9.1	5.0
Cost (%)	48.3	26.0	14.1	(0.4)	6.3	5.9
Pre-Provision Operating Profit Growth (%)	58.5	104.8	16.5	15.2	10.6	4.5
Provisions (%)	43.4	156.7	1.6	(8.0)	(1.2)	(14.7)
Net Profit (%)	48.9	17.3	28.9	29.2	14.4	9.8
Assets (%)	61.4	9.1	6.0	5.0	5.0	5.0
Loans (%)	48.6	5.1	6.7	4.3	4.4	4.6
Deposits (%)	75.4	12.2	8.6	5.0	5.0	5.0
Risk Weighted Assets (%)	67.1	(2.1)	6.9	5.8	4.1	4.8

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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.

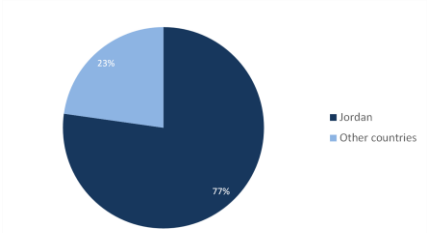
In 2023, Capital Bank expanded into leasing in Iraq and expand its leasing operations in Jordan.

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

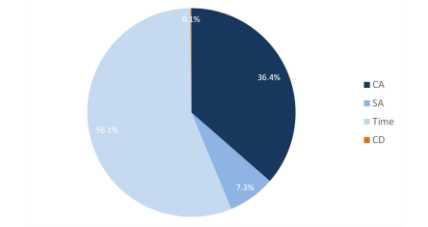
All Board of Directors are non-executive, and 4 out of the 13 are independent.

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	471	476	486	507
Interest expense	161	249	255	231	211	220
Net Interest Income	**159**	**178**	**215**	**246**	**275**	**288**
Fee income	36	142	169	174	183	192
Net investment income	(1)	-	1	1	1	1
Other operating income	17	26	16	17	18	20
Total operating income	**211**	**347**	**401**	**438**	**478**	**501**
Total operating expenses	107	135	154	153	163	173
Pre-provision operating profit	**103**	**212**	**247**	**285**	**315**	**329**
Net provisions	29	73	75	69	68	58
Other provisions / impairment	3	11	5	2	2	2
Operating profit	**72**	**127**	**168**	**214**	**245**	**269**
Associates	-	-	-	-	-	-
Pre-tax profit	**72**	**127**	**168**	**214**	**245**	**269**
Taxation	6	21	30	36	42	46
Net profit	**91**	**107**	**137**	**178**	**203**	**223**
Minorities	4	35	37	43	49	54
ADT1 coupon	-	-	3	3	3	3
Others	-	-	-	-	-	-
Attributable net profit	84	69	97	132	151	167
Diluted EPS	0.37	0.26	0.37	0.50	0.58	0.63
DPS	0.17	0.15	0.17	0.19	0.22	0.24
BVPS	2.73	2.50	2.70	3.02	3.38	3.78
Tangible BVPS	2.47	2.24	2.50	2.86	3.25	3.67

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	278	320	360	395
Net loans and advances	3,265	3,431	3,660	3,815	3,981	4,164
Cash and central bank	781	1,319	1,363	1,474	1,586	1,693
Due from banks	220	165	241	254	266	279
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	5,922	6,218	6,529	6,856
Due to banks	149	146	61	47	24	(5)
Debt	755	601	601	601	601	601
Other liabilities	541	664	704	739	776	815
Total liabilities	**6,305**	**6,864**	**7,288**	**7,605**	**7,930**	**8,266**
Total equity	**653**	**728**	**760**	**845**	**943**	**1,050**
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	6,392	6,725	7,010	7,303
Common shareholders	559	590	657	751	855	967
Core Equity Tier 1 (Basel III)	477	528	562	650	750	860
Tier 1 capital	513	554	633	721	821	931

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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 Q2 24A review

JODm	Q2 24A	AC Q2 24e	vs. AC	Q1 24A	q/q 24	Q2 23A	Q1 23A	q/q 23	y/y Q2	y/y Q1	H1 24A	H1 24e	vs. AC	H1 23A	y/y 6M
Interest Income	117	120	(2.3%)	117	0.2%	104	106	(1.8%)	13.2%	11.0%	235	237	(1.2%)	209	12.1%
Interest expense	65	68	(3.3%)	65	1.3%	63	61	3.3%	4.1%	6.1%	130	132	(1.7%)	124	5.1%
Net interest income	**52**	**53**	**(1.0%)**	**53**	**(1.2%)**	**41**	**45**	**(8.7%)**	**27.3%**	**17.7%**	**105**	**105**	**(0.5%)**	**86**	**22.3%**
Fee Income	40	36	10.5%	52	(23.0%)	31	18	75.2%	26.4%	187.6%	91	88	4.3%	49	85.0%
Net Trading Income	0	0	nm	0	nm	0	0	nm	nm	nm	0	0	(91.6%)	0	nm
Other Income	5	4	14.9%	6	(17.9%)	9	6	46.1%	(47.7%)	(7.0%)	10	10	6.2%	15	(31.2%)
Non-interest income	**44**	**40**	**10.1%**	**57**	**(22.5%)**	**40**	**24**	**65.5%**	**10.5%**	**136.2%**	**102**	**97**	**4.2%**	**64**	**57.8%**
Total income	**96**	**93**	**3.8%**	**110**	**(12.3%)**	**81**	**69**	**17.4%**	**19.0%**	**59.3%**	**206**	**203**	**1.7%**	**150**	**37.5%**
Operating expenses	46	35	30.8%	33	38.1%	30	28	7.5%	51.7%	18.1%	79	68	15.8%	58	35.5%
Operating profit	**51**	**58**	**(12.4%)**	**77**	**(34.0%)**	**51**	**41**	**24.2%**	**(0.4%)**	**87.4%**	**128**	**135**	**(5.3%)**	**92**	**38.8%**
LLP	21	19	15.7%	16	**35.2%**	15	9	61.1%	**40.6%**	67.5%	37	34	8.5%	25	**nm**
Taxes	5	6	(23.8%)	11	nm	10	4	155.7%	(53.3%)	175.5%	16	18	(8.6%)	14	11.0%
Group Net income	**21**	**33**	**(35.6%)**	**49**	**(57.4%)**	**24**	**26**	**(8.3%)**	**(12.5%)**	**88.2%**	**70**	**82**	**(14.2%)**	**50**	**40.1%**
Attributable NI	**11**	**24**	**(54.1%)**	**34**	**(67.5%)**	**18**	**23**	**(20.0%)**	**(40.4%)**	**46.8%**	**45**	**58**	**(22.4%)**	**41**	**8.1%**
Annualised NIMs	2.77%	2.85%		2.91%		2.32%	2.64%				1.49%	1.50%		1.37%	
Cost/income	47.3%	37.5%		30.0%		37.1%	40.5%				38.1%	33.5%		38.7%	
Loans to deposits	66.5%	70.4%		70.6%		69.7%	71.0%				66.5%	70.4%		69.7%	
Annualized LLP	2.23%	1.93%		1.67%		1.61%	0.99%				1.94%	1.79%		0.65%	
Gross Loans	**3,851**	**3,851**	**0.0%**	**3,808**	**1.1%**	**3,802**	**3,807**		**1.3%**	**0.0%**	**3,851**	**3,851**	**0.0%**	**3,802**	**1.3%**
Net Loans	**3,529**	**3,556**	**(0.7%)**	**3,505**	**0.7%**	**3,532**	**3,546**		**(0.1%)**	**(1.2%)**	**3,529**	**3,556**	**(0.7%)**	**3,532**	**(0.1%)**
Customer deposits	**5,791**	**5,469**	**5.9%**	**5,391**	**7.4%**	**5,453**	**5,363**		**6.2%**	**0.5%**	**5,791**	**5,469**	**5.9%**	**5,453**	**6.2%**

Source: Company Data, Arqaam Capital Research

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**	**New**	**Old**	**Δ**
Net interest income	215	207	4.0%	246	226	8.7%	275	254	8.2%	288	290	(0.6%)	305	306	(0.6%)
Fee income	169	162	4.4%	174	170	2.4%	183	179	2.4%	192	188	2.4%	202	197	2.4%
Investment income	1	1	–	1	1	–	1	1	–	1	1	–	1	1	–
Non-interest income	186	179	4.0%	192	189	2.0%	203	199	1.8%	214	210	1.7%	225	222	1.5%
Total income	**401**	**386**	**4.0%**	**438**	**414**	**5.7%**	**478**	**453**	**5.4%**	**501**	**500**	**0.4%**	**530**	**528**	**0.3%**
Opex	154	145	6.3%	153	155	(1.0%)	163	165	(1.0%)	173	174	(1.0%)	182	184	(1.0%)
Operating income	**247**	**241**	**2.6%**	**285**	**260**	**9.6%**	**315**	**289**	**9.0%**	**329**	**325**	**1.1%**	**348**	**344**	**1.0%**
Loan loss provision	75	73	2.6%	69	61	13.3%	68	59	14.3%	58	58	–	56	56	–
Other provision	**5**	**2**		**2**	**2**		**2**	**2**		**2**	**3**		**2**	**3**	
Net income reported	**100**	**107**	**(6.3%)**	**135**	**127**	**6.2%**	**154**	**146**	**5.4%**	**170**	**171**	**(0.9%)**	**182**	**184**	**(1.0%)**
Net income adjusted	**97**	**102**	**(4.7%)**	**132**	**122**	**8.1%**	**151**	**142**	**7.0%**	**167**	**166**	**0.3%**	**179**	**179**	**0.0%**
Ratios															
NIM	2.97%	2.86%	0.11%	3.23%	2.97%	0.26%	3.43%	3.17%	0.26%	3.42%	3.44%	-0.02%	3.44%	3.46%	-0.02%
Cost/income	38.4%	37.6%	0.8%	35.0%	37.4%	(2.4%)	34.1%	36.3%	(2.2%)	34.4%	34.9%	(0.5%)	34.4%	34.9%	(0.5%)
LLP	1.95%	1.90%	0.05%	1.70%	1.50%	0.20%	1.60%	1.40%	0.20%	1.30%	1.30%	0.00%	1.20%	1.20%	0.00%
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%	136.0%	-0.05%	146.6%	145.1%	1.50%	155.8%	152.8%	2.99%	161.7%	159.2%	2.55%	166.4%	164.2%	2.15%
Growth															
Assets	6%	6%	–	5%	5%	–	5%	5%	–	5%	5%	–	5%	5%	–
Loan	6%	6%	–	5%	5%	–	5%	5%	–	5%	5%	–	5%	5%	–
Deposit	9%	3%	5.4%	5%	5%	0.0%	5%	5%	–	5%	5%	–	5%	5%	–
AED															
EPS	0.37	0.39	(4.7%)	0.50	0.46	8.1%	0.58	0.54	7.0%	0.63	0.63	0.3%	0.68	0.68	0.0%
TP	**4.0**	**4.0**	**2.3%**												

Source: Company Data, Arqaam Capital Research

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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	100	131	150	165	178	184		
Other adjustments (comprehensive income and GW amor	--	--	--	--	--	--	--	--	--	--	--	--	--	--		
Minus: excess return excess capital	8	9	8	9	5	3	5	9	10	14	18	23	28	29		
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	90	117	132	142	150	155		
Capital requirements	191	182	178	196	219	286	478	468	501	530	551	577	606	624		
RoEcC	2.5%	8.7%	13.0%	8.3%	9.4%	26.6%	16.6%	12.7%	18.0%	22.1%	24.0%	24.7%	24.8%	24.8%		
Cost of capital	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%		
Capital charge	30	29	28	31	35	45	75	74	79	83	87	91	95	98		
Economic profit	(25)	(13)	(5)	(15)	(14)	31	4	(14)	11	34	45	51	55	56		
Discount factor	--	--	--	--	--	--	--		1.00	0.86	0.75	0.64	0.56	0.48		
NPV of Economic Profit	--	--	--	--	--	--	--	--	11	29	34	33	30	27		
DCF EVA Forecast period															165	15.6%
Perpetual growth rate (nominal GDP)														3.0%		
Terminal Value														442		
Terminal value discounted															213	20.1%
Required Capital															468	44.2%
Value of the bank operations															**846**	**79.9%**
2. Capital surplus/deficit																
Available capital:																
Shareholders equity	278	292	287	294	307	363	617	658	714	796	890	993	1,104			
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	665	755	852	960	1,074			
Capital needs																
RWAs (Basel II)	1,590	1,514	1,486	1,630	1,826	2,385	3,984	3,901	4,174	4,415	4,594	4,812	5,049			
RWAs (Basel III)	1,590	1,514	1,486	1,630	1,826	2,385	3,984	3,901	4,174	4,415	4,594	4,812	5,049			
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	501	530	551	577	606			
Surplus capital	**128**	**142**	**128**	**149**	**91**	**46**	**77**	**153**	**164**	**225**	**301**	**382**	**468**		**153**	**14.5%**
3. Other adjustments																
ADT1															35	
Underprovisioning															(15)	
Total adjustments															**20**	**1.9%**
4. Dividends															**39**	**3.7%**
Total Fair Value															**1,059**	**100%**
Fully diluted number of shares															263	
Fair value per share															**4.0**	
Current share price															**1.9**	
Upside															**110.7%**	
Implied P/E (x)	64.7	33.0	26.0	32.1	31.0	10.2	10.8	15.4	10.6	8.1	7.0	6.4	5.9			
Implied P/tNAV (x)	3.0	2.8	2.9	2.8	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.

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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.

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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

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.

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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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