Model Update and Q3 Review
December 4 2024

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CAPITAL BANK OF JORDAN

Well positioned for rate cuts, with RoE set to reach its medium target next year. Attractive value.

- **We forecast a strong EPS growth of 40% in FY24e vs the drop of 18% in FY23 and 17% YTD growth and pencil in a 3-year EPS growth of 18%, mainly driven by margin expansion on rate cuts, with RoE (after ADT1 coupon) expected to reach 17-18% from 15.5% in FY24e and 12% in FY23 vs CAPL's MT/LT's target of >16%.**
- **We forecast a cumulative margin expansion of 45bps in FY25-26e (vs. compression of 46bps during FY22-23) with a substantial negative 12-month ALM gap of 29.8%, with liabilities adjusting faster than assets, helping NIMs.**
- **The stock remains compelling at 0.8x BV and P/E 25e of 5x vs a mid-cycle RoE of c16-18% and FY26 target >16%, recording the highest RoE in Jordan. Despite domestic economic challenges, our TP of JOD 4.0 offers a significant upside.**

Strong outlook for Jordan's third-largest bank despite domestic challenges. We pencil in tepid balance sheet growth of mid-single digits, below the company's target of >8%, with the country affected by sharply lower tourism, which affects economic growth (slowing to 2.4% in FY24e) and the current account balance (-5% in FY24e), with the government running a deficit of 7.6% this year, while unemployment hits 22%. We expect the bank to benefit from lower policy rates, with liabilities adjusting faster than assets, boding well for EPS uplift in FY25e and FY26e while benefiting the expected CoR. We expect CAPL to exceed its RoE target of 16% in FY25 while falling slightly behind in FY24. The bank continues to outperform its local peers. We now forecast 3-year EPS growth of 18.4% (vs. -18.3% in FY23 and +40.5% in FY24e), mainly driven by margin expansion on rate cuts, with RoE (after ADT1 coupon) expected to reach 17.9% from 15.5% in FY24e and 12% in FY23 vs. CAPL's MT/LT's target of >16%. RoE expanded to 14.4% (after the ADT1 coupon) in 9M 24 vs. 12% in FY23, just behind the LT target of >16%.

Operating profit dropped by 7% y/y due to the high base (32% of FY23A). Operating profit dropped by 7% due to negative JAWs of -14.4%pts with revenue generation in line with the same period last year as the rise in NII (+30%), stemming from NIM expansion, offset the drop in F&C (-20%). Attributable net income rose by 35% due to lower taxes (JD 0.4m vs. 4.8m in Q2 and 9m in Q3 23) and lower provisions. Sequentially, operating profit rose by 13.1%, benefitting from lower OpEx after one-offs in Q2 and lower provisions, though revenue generation was flat.

Tailwinds from rate cuts going forward, with NIM already expanding q/q. We estimate a cumulative expansion of 45bps in FY25-26e (vs. compression of 46bps during FY22-23) with a substantial negative 12-month ALM gap of 29.8%, with liabilities adjusting faster than assets. NIM improved by 6bps q/q in Q3 (vs. -14bps in Q2 and +5bps in Q1) with y/y expansion at 45bps mainly driven by higher asset yield (15bps q/q and 26bps y/y). NIM in 9M24A rose by 21bps over FY23 with further improvement expected on rate cuts going forward.

We slightly raise our asset/loan growth estimate by 0.5%pt, to 6.5% for loans vs. 5.3% YtD. The loan book expanded by 1.6% q/q (vs. 2.5% in Q1 and 1.1% in Q2), taking YtD growth to 5.3% mainly driven by the retail (15%, 76.7% contribution), public sector (15%, 29%), and large corporates (2.7%, 23%). Mortgages and SMEs were lower YtD by 9.3% and 8%, respectively. Meanwhile, deposits rose by 2.3% q/q (8.7% YTD), driven by TDs (4.4% q/q), followed by CA (+1.2%). CASA share stood at 43% (vs. 44% in Q2 and 42% YE), while TDs were at 57% (vs. 56% and 58%, respectively). The bank's deposit market share stood at 8.7% (vs. 8.9% YE), while the loan market share slipped from 7.9% YE23 to 7.5%.

CoR remains ahead of NPL formation, with the economy hit by lower tourism numbers. The annualised NPL formation stood at 1% in Q3 vs. 1.2% in the previous quarter and 86bps in Q3 23, while CoR was way ahead at 1.7%, 2.2%, and 2%, respectively. We slightly reduce our CoR24e assumption by 7bps to 1.9%. Stage 2 share dropped to 8.5% from 9.4% in Q2 and 9.9% YE, while coverage fell to 13.8% from 14% sequentially, still higher than 12.8% YE. Stage 3 share increased to 10.1% from 9.8% in Q2 and 8.1% YE, while coverage rose to 54.1% from 48% to 50.3%, respectively. We calculate a provision deficit of -0.7% of total loans vs our acid test (1% of stage 1, 12% of stage 2 and 60% of stage 3) vs -1% in Q2 24 and -1.6% a year earlier.

Ltd dropped to 66% vs 68.1% YE 23; the bank is very liquid. Tier 1 and CAR improved to 15.4% and 16.2%, respectively, from 14.2% and 15.2% in Q2 (14.2% and 15.4% YE) as RWA dropped by 3.3% q/q, still up 5.2% YTD (vs asset growth 1.3% q/q and 9.1% YTD). The LCR and NSFR stood at 138% (219% YE 23) and 130% (132% YE22), respectively, and the LtD at 66% (68.1% YE 23).

The stock's low valuation is unwarranted by RoE, EPS growth, and DY. It trades at an undemanding FY25e P/E of 5 x and FY24 P/tNAV of 0.8x, with a DY of c.8-9% in FY24e. Our TP of JOD 4.0 offers a substantial upside.

BUY **JOD 4.0**

Banks / JORDAN

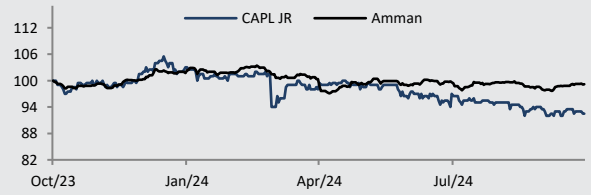
Bloomberg code	CAPL JR
Market index	Amman
Target Price	4.0
Upside (%)	118.0

Market data 11/28/2024

Last closing price	1.82
52 Week range	1.8-2.1
Market cap (JOD m)	479
Market cap (USD m)	675
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	402	440
Pre-provisioning profit	103	212	248	286
EPS	0.37	0.26	0.37	0.48
P/E (x) (mkt price)	4.9	7.0	5.0	3.8
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	0.7	0.7	0.6
P/TBVPS (x) (mkt price)	0.7	0.8	0.7	0.6
DPS	0.17	0.15	0.17	0.19
Div. yield (%)	9.6	8.2	9.1	10.2
EPPS	0.02	(0.05)	0.03	0.12
RoAA (%)	1.5	0.9	1.2	1.5
RoRWA (%)	2.1	1.8	2.3	2.8
RoATE (%)	18.9	12.0	15.5	18.0
RoEcC (%)	16.6	12.7	17.3	21.2
RAROC (%)	10.6	13.1	16.5	19.1
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	13.4	14.5
Tier 1 capital ratio (%)	12.9	14.2	15.1	16.1
Total capital ratio (%)	13.7	15.4	15.9	16.9
NPL ratio (%)	6.2	6.1	6.2	6.2
Coverage ratio (%)	88.9	102.4	134.9	145.5
Number of shares	226	263	263	263

Price Performance



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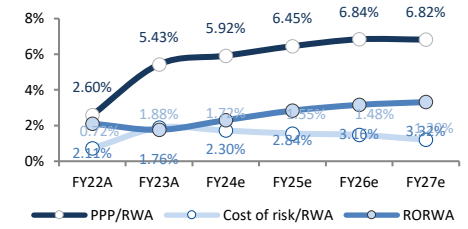
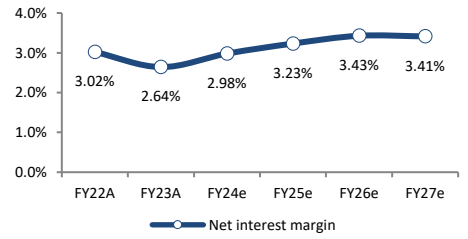
Abacus *Arqaam Capital Fundamental Data*

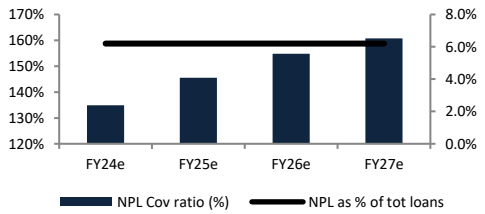
Profitability



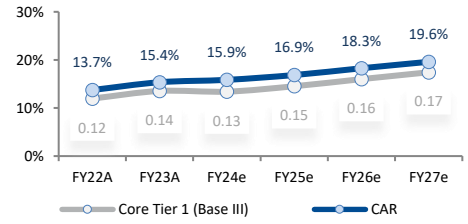
NIM



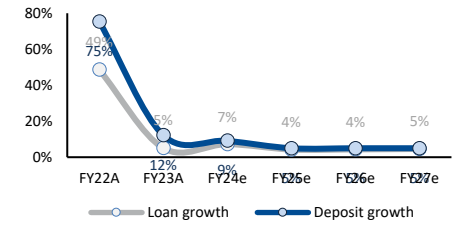
Credit Quality



Capital Ratios



Growth



CAPITAL BANK OF JORDAN

Year-end	2022	2023	2024e	2025e	2026e	2027e
Performance analysis						
Net Interest Margin (%)	3.02	2.64	2.98	3.23	3.43	3.41
Asset yield (%)	6.09	6.33	6.51	6.27	6.19	6.15
Cost of Funds (%)	3.45	4.17	4.00	3.43	3.15	3.15
Risk Adjusted Margins (%)	2.48	1.55	1.99	2.33	2.58	2.73
Cost / Income (%)	50.9	38.9	38.3	34.9	34.1	34.4
Net Interest Income / total income (%)	75.6	51.4	53.8	56.2	57.7	57.5
Fees & Commissions / operating income (%)	16.9	41.0	42.1	39.6	38.2	38.3
Trading gains / operating income (%)	(0.3)	0.5	0.5	0.4	0.4	0.4
RoATE (%)	18.9	12.0	15.5	18.0	18.4	17.9
Pre-prov. RoATE (%)	20.2	24.1	25.7	26.2	25.4	23.0
RoAA (%)	1.5	0.9	1.2	1.5	1.7	1.8
Revenue / RWA (%)	5.28	8.89	9.59	9.91	10.37	10.39
Costs / RWA (%)	2.69	3.46	3.67	3.46	3.53	3.57
PPP / RWA (%)	2.60	5.43	5.92	6.45	6.84	6.82
Cost of Risk / RWA (%)	0.72	1.88	1.72	1.55	1.48	1.20
RoRWA (%)	2.11	1.76	2.30	2.84	3.16	3.32
RoRWA (%) (adj. for gross-up of associates)	2.11	1.76	2.30	2.84	3.16	3.32

Year-end	2022	2023	2024e	2025e	2026e	2027e
Asset Quality						
Provisions charge / avg. gross loans (%)	1.0	2.0	1.9	1.7	1.6	1.3
Past due not impaired / gross loans (%)	3.4	5.3	5.9	6.7	7.3	7.8
NPL / gross loans (%)	6.2	6.1	6.2	6.2	6.2	6.2
NPL coverage ratio (%)	88.9	102.4	134.9	145.5	154.8	160.7
Provisions / avg. gross loans (%)	3.4	5.3	5.9	6.7	7.3	7.8
Provisions charge / operating income (%)	27.7	34.7	29.1	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	60.8
Cash and interbank / assets (%) [1]	12.2	17.6	19.1	19.7	20.4	20.9
Deposits / liabilities (%)	77.1	79.4	81.2	81.7	82.2	82.7

Year-end	2022	2023	2024e	2025e	2026e	2027e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	12.0	13.5	13.4	14.5	16.0	17.4
Tier 1 ratio (%)	12.9	14.2	15.1	16.1	17.5	18.9
Total capital ratio (%)	13.7	15.4	15.9	16.9	18.3	19.6
Tangible equity / assets (%)	9.4	9.6	9.4	9.9	10.4	11.0
RWA / assets (%)	57.3	51.4	51.9	52.2	51.8	51.6

Year-end	2022	2023	2024e	2025e	2026e	2027e
Growth						
Revenues (%)	53.1	64.7	15.9	9.3	8.9	5.0
Cost (%)	48.3	26.0	14.1	(0.4)	6.3	5.9
Pre-Provision Operating Profit Growth (%)	58.5	104.8	17.1	15.3	10.2	4.5
Provisions (%)	43.4	156.7	(1.8)	(4.4)	(1.2)	(14.7)
Net Profit (%)	48.9	17.3	37.4	20.6	13.9	9.8
Assets (%)	61.4	9.1	6.5	5.0	5.0	5.0
Loans (%)	48.6	5.1	7.3	4.3	4.3	4.6
Deposits (%)	75.4	12.2	9.1	5.0	5.0	5.0
Risk Weighted Assets (%)	67.1	(2.1)	7.5	5.8	4.0	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 11.7bn in assets, it ranks the third bank after Arab Bank (40.4b), Housing Bank (12.7bn), but ahead of Bank al Etihad (11b) and Jordan Kuwait Bank (7.9bn).

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.

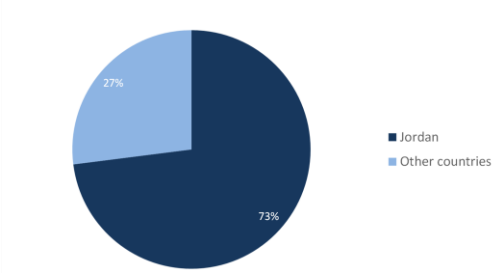
In 2023, Capital Bank expanded into leasing in Iraq and expand its leasing operations in Jordan.

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

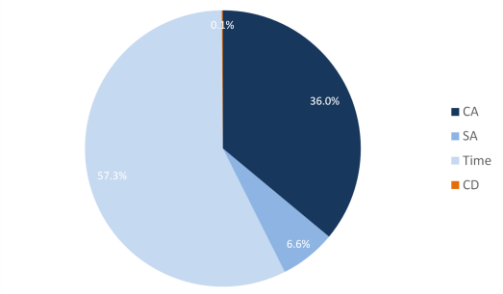
All Board of Directors are non-executive, and 4 out of the 13 are independent.

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%

CAPITAL BANK OF JORDAN

Year-end	2022	2023	2024e	2025e	2026e	2027e
Income statement (JODmn)						
Interest income	321	427	472	479	498	520
Interest expense	161	249	256	232	222	232
Net Interest Income	**159**	**178**	**216**	**247**	**276**	**289**
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**	**402**	**440**	**479**	**502**
Total operating expenses	107	135	154	153	163	173
Pre-provision operating profit	**103**	**212**	**248**	**286**	**316**	**330**
Net provisions	29	73	72	69	68	58
Other provisions / impairment	3	11	5	2	2	2
Operating profit	**72**	**127**	**171**	**215**	**245**	**269**
Associates	-	-	-	-	-	-
Pre-tax profit	**72**	**127**	**171**	**215**	**245**	**269**
Taxation	6	21	25	39	44	48
Net profit	**91**	**107**	**146**	**177**	**201**	**221**
Minorities	4	35	47	48	52	57
ADT1 coupon	-	-	3	3	3	3
Others	-	-	-	-	-	-
Attributable net profit	84	69	97	126	146	160
Diluted EPS	0.37	0.26	0.37	0.48	0.55	0.61
DPS	0.17	0.15	0.17	0.19	0.22	0.24
BVPS	2.73	2.50	2.70	3.00	3.34	3.71
Tangible BVPS	2.47	2.24	2.50	2.83	3.20	3.60

Year-end	2022	2023	2024e	2025e	2026e	2027e
Balance sheet (JODmn)						
Gross loans and advances	**3,513**	**3,715**	**3,957**	**4,155**	**4,362**	**4,580**
Less: loan loss provisions	248	284	277	318	359	394
Net loans and advances	3,265	3,431	3,680	3,836	4,003	4,186
Cash and central bank	781	1,319	1,368	1,479	1,592	1,699
Due from banks	220	165	243	255	267	281
Investment, net	2,225	2,197	2,218	2,329	2,445	2,567
Fixed assets, net	113	116	120	123	127	131
Other assets	296	296	404	425	446	468
Total assets	**6,958**	**7,592**	**8,086**	**8,490**	**8,915**	**9,361**
Customer deposits	4,860	5,453	5,950	6,248	6,560	6,888
Due to banks	149	146	69	60	44	21
Debt	755	601	601	601	601	601
Other liabilities	541	664	707	742	779	818
Total liabilities	**6,305**	**6,864**	**7,327**	**7,651**	**7,984**	**8,329**
Total equity	**653**	**728**	**759**	**839**	**931**	**1,032**
Risk Weighted Assets (bn)	4	4	4	4	5	5
Average Interest-Earning Assets	5,266	6,750	7,258	7,650	8,047	8,462
Average Interest-Bearing Liabilities	4,679	5,982	6,410	6,764	7,057	7,357
Common shareholders	559	590	657	745	843	948
Core Equity Tier 1 (Basel III)	477	528	562	644	738	842
Tier 1 capital	513	554	633	715	809	913

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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 Q3 24A review

JODm	Q3 24A	AC Q3 24e	vs. AC	Q2 24A	q/q 24	Q3 23A	Q2 23A	q/q 23	y/y Q3	y/y Q2	9M 24A	9M 24e	vs. AC	9M 23A	y/y 9M
Interest Income	122	118	3.9%	117	4.2%	106	104	2.3%	15.3%	13.2%	357	352	1.3%	315	13.2%
Interest expense	68	64	5.8%	65	3.4%	64	63	1.9%	5.6%	4.1%	198	194	1.9%	188	5.3%
Net interest income	**55**	**54**	**1.8%**	**52**	**5.1%**	**42**	**41**	**2.9%**	**30.1%**	**27.3%**	**159**	**158**	**0.6%**	**128**	**24.8%**
Fee Income	37	39	(4.9%)	40	(6.8%)	46	31	47.3%	(19.9%)	26.4%	128	130	(1.5%)	96	34.2%
Net Trading Income	0	0	nm	0	nm	0	0	nm	nm	nm	0	0	nm	0	nm
Other Income	4	4	(1.2%)	5	(15.7%)	7	9	(24.0%)	(42.0%)	(47.7%)	14.0	14.0	(0.3%)	21	(34.5%)
Non-interest income	**41**	**43**	**(5.2%)**	**44**	**(7.7%)**	**53**	**40**	**32.0%**	**(22.7%)**	**10.5%**	**142**	**145**	**(1.5%)**	**117**	**21.5%**
Total income	**96**	**97**	**(1.3%)**	**96**	**(0.7%)**	**95**	**81**	**17.3%**	**0.7%**	**19.0%**	**302**	**303**	**(0.4%)**	**245**	**23.2%**
Operating expenses	38	35	9.4%	46	(16.2%)	33	30	10.5%	15.1%	51.7%	117	113	2.9%	91	28.1%
Operating profit	**57**	**62**	**(7.4%)**	**51**	**13.1%**	**62**	**51**	**21.3%**	**(7.1%)**	**(0.4%)**	**185**	**190**	**(2.4%)**	**154**	**20.4%**
LLP	17	19	(10.5%)	21	**(22.8%)**	19	15	22.3%	**(11.3%)**	40.6%	54	56	(3.5%)	43	**nm**
Taxes	0	8	(95.0%)	5	nm	9	10	(13.6%)	(95.3%)	(53.3%)	16	24	(32.6%)	23	(29.7%)
Group Net income	**39**	**35**	**14.4%**	**21**	**88.3%**	**32**	**24**	**33.8%**	**23.2%**	**(12.5%)**	**110**	**105**	**4.7%**	**82**	**33.5%**
Attributable NI	**26**	**24**	**8.7%**	**11**	**140.0%**	**19**	**18**	**5.8%**	**35.3%**	**(40.4%)**	**71**	**69**	**3.0%**	**61**	**16.8%**
Annualised NIMs	2.84%	2.83%		2.77%		2.39%	2.32%				2.27%	2.25%		2.05%	
Cost/income	39.9%	36.0%		47.3%		34.9%	37.1%				38.7%	37.4%		37.2%	
Loans to deposits	66.0%	66.5%		66.5%		70.0%	69.7%				66.0%	66.5%		70.0%	
Annualized LLP	1.69%	1.90%		2.23%		1.99%	1.61%				1.84%	1.91%		1.54%	
Gross Loans	**3,914**	**3,894**	**0.5%**	**3,851**	**1.6%**	**3,755**	**3,802**		**4.2%**	**1.3%**	**3,914**	**3,894**	**0.5%**	**3,755**	**4.2%**
Net Loans	**3,569**	**3,594**	**(0.7%)**	**3,529**	**1.1%**	**3,463**	**3,532**		**3.1%**	**(0.1%)**	**3,569**	**3,594**	**(0.7%)**	**3,463**	**3.1%**
Customer deposits	**5,926**	**5,856**	**1.2%**	**5,791**	**2.3%**	**5,366**	**5,453**		**10.4%**	**6.2%**	**5,926**	**5,856**	**1.2%**	**5,366**	**10.4%**

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	216	215	0.6%	247	246	0.7%	276	275	0.3%	289	288	0.3%	306	305	0.3%
Fee income	169	169	–	174	174	–	183	183	–	192	192	–	202	202	–
Investment income	1	1	0.2%	1	1	0.5%	1	1	0.5%	1	1	0.5%	1	1	0.5%
Non-interest income	186	186	0.0%	192	192	0.0%	203	203	0.0%	214	214	0.0%	225	225	0.0%
Total income	**402**	**401**	**0.3%**	**440**	**438**	**0.4%**	**479**	**478**	**0.2%**	**502**	**501**	**0.2%**	**531**	**530**	**0.2%**
Opex	154	154	–	153	153	–	163	163	–	173	173	–	182	182	–
Operating income	**248**	**247**	**0.5%**	**286**	**285**	**0.6%**	**316**	**315**	**0.3%**	**330**	**329**	**0.3%**	**348**	**348**	**0.2%**
Loan loss provision	72	75	(3.4%)	69	69	0.5%	68	68	0.5%	58	58	0.5%	56	56	0.5%
Other provision	**5**	**5**		**2**	**2**		**2**	**2**		**2**	**2**		**2**	**2**	
Net income reported	**100**	**100**	**(0.7%)**	**129**	**135**	**(4.5%)**	**149**	**154**	**(3.6%)**	**163**	**170**	**(3.6%)**	**176**	**182**	**(3.6%)**
Net income adjusted	**97**	**97**	**(0.8%)**	**126**	**132**	**(4.6%)**	**146**	**151**	**(3.7%)**	**160**	**167**	**(3.7%)**	**173**	**179**	**(3.7%)**
Ratios															
NIM	2.98%	2.97%	0.01%	3.23%	3.23%	0.01%	3.43%	3.43%	-0.01%	3.41%	3.42%	-0.01%	3.44%	3.44%	-0.01%
Cost/income	38.3%	38.4%	(0.1%)	34.9%	35.0%	(0.1%)	34.1%	34.1%	(0.1%)	34.4%	34.4%	(0.1%)	34.3%	34.4%	(0.1%)
LLP	1.88%	1.95%	-0.07%	1.70%	1.70%	0.00%	1.60%	1.60%	0.00%	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	134.9%	136.0%	-1.15%	145.5%	146.6%	-1.09%	154.8%	155.8%	-1.04%	160.7%	161.7%	-0.99%	165.4%	166.4%	-0.94%
Growth															
Assets	6.5%	6%	0.5%	5%	5%	–	5%	5%	–	5%	5%	–	5%	5%	–
Loan	7%	6%	0.5%	5%	5%	–	5%	5%	–	5%	5%	–	5%	5%	–
Deposit	9%	9%	0.5%	5%	5%	(0.0%)	5%	5%	–	5%	5%	–	5%	5%	–
AED															
EPS	0.37	0.37	(0.8%)	0.48	0.50	(4.6%)	0.55	0.58	(3.7%)	0.61	0.63	(3.7%)	0.66	0.68	(3.7%)
TP	**4.0**	**4.0**	**(2.0%)**												

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	97	126	146	160	173	178		
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	27		
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	87	113	129	139	146	151		
Capital requirements	191	182	178	196	219	286	478	468	503	532	554	580	609	627		
RoEcC	2.5%	8.7%	13.0%	8.3%	9.4%	26.6%	16.6%	12.7%	17.3%	21.2%	23.2%	23.9%	24.0%	24.0%		
Cost of capital	15%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%		
Capital charge	29	28	28	30	34	44	74	73	78	83	86	90	94	97		
Economic profit	(24)	(12)	(4)	(14)	(13)	32	5	(13)	9	30	43	49	52	53		
Discount factor	--	--	--	--	--	--	--		1.00	0.87	0.75	0.65	0.56	0.49		
NPV of Economic Profit	--	--	--	--	--	--	--	--	9	26	32	32	29	26		
DCF EVA Forecast period															154	14.8%
Perpetual growth rate (nominal GDP)														3.0%		
Terminal Value														428		
Terminal value discounted															208	19.9%
Required Capital															468	44.9%
Value of the bank operations															**831**	**79.6%**
2. Capital surplus/deficit																
Available capital:																
Shareholders equity	278	292	287	294	307	363	617	658	711	788	877	976	1,082			
Minorities	56	58	50	54	48	29	35	71	49	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	662	747	840	943	1,051			
Capital needs																
RWAs (Basel II)	1,590	1,514	1,486	1,630	1,826	2,385	3,984	3,901	4,193	4,436	4,615	4,834	5,072			
RWAs (Basel III)	1,590	1,514	1,486	1,630	1,826	2,385	3,984	3,901	4,193	4,436	4,615	4,834	5,072			
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	503	532	554	580	609			
Surplus capital	**128**	**142**	**128**	**149**	**91**	**46**	**77**	**153**	**159**	**215**	**286**	**362**	**443**		**153**	**14.7%**
3. Other adjustments																
ADT1															35	
Underprovisioning															(15)	
Total adjustments															**20**	**1.9%**
4. Dividends															**39**	**3.8%**
Total Fair Value															**1,044**	**100%**
Fully diluted number of shares															263	
Fair value per share															**4.0**	
Current share price															**1.9**	
Upside															**114.4%**	
Implied P/E (x)	63.8	32.6	25.7	31.6	30.6	10.1	10.7	15.2	10.8	8.3	7.2	6.5	6.0			
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 six 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 76m.

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 2024, Capital Bank published its second 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 twelve material topics: Pillar 1 – Environmental: Climate Action and Protecting the Environment: a. Climate Change and Decarbonisation b. Environmental Management c. Sustainable Lending and Investing. Pillar 2 – Social: Creating Value for Our People and Communities: a. Gender Equality and Workforce Development and Wellbeing 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 d. Compliance and Ethical Conduct

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 of its fiscal deficit and a decline in government debt over the next few years.

Jordan's annual inflation rate is projected at 2.1% for 2024. Pressure from housing prices and utilities, notably fuels and electricity, primarily affects the rate.

Exhibit 4: Jordan's key stats – current account deficit widening to 5.0% with he fiscal deficit at 7.6%

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP Growth	1.9	1.8	-1.1	3.7	2.4	2.6	2.4	2.9	3.0	3.0	3.0	3.0
Total investment rate	19.8	18.8	18.7	19.7	18.6	18.2	19.5	18.6	18.6	18.7	18.7	19.7
Gross national savings rate	12.9	17.0	13.0	11.6	10.7	14.8	14.6	14.6	14.7	14.8	14.5	15.7
Inflation, average consumer prices	4.5	0.8	0.3	1.3	4.2	2.1	2.1	2.4	2.5	2.5	2.5	2.5
Volume of imports of goods and services	-1.3	2.1	-16.8	19.3	7.3	4.1	1.8	3.0	3.1	3.2	3.1	3.1
Volume of exports of goods and services	0.7	12.0	-15.8	7.8	18.4	7.1	1.3	5.8	3.6	3.4	3.3	3.1
Unemployment rate	18.6	19.1	22.7	24.1	22.9	22.0	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	25.2	26.0	26.3	26.7	27.1	27.1	27.1
General government total expenditure	30.1	30.1	31.7	32.2	32.6	32.5	33.5	31.8	31.4	30.2	29.4	28.5
General government net lending/borrowing	-4.6	-5.8	-9.1	-7.5	-7.0	-7.2	-7.6	-5.5	-4.7	-3.2	-2.3	-1.4
General government structural balance	-2.2	-3.6	-6.4	-4.9	-7.1	-6.3	-6.7	-6.4	-5.8	-4.4	-3.6	-2.7
General government primary net lending/borrowing	-1.4	-2.3	-4.9	-3.2	-2.7	-2.5	-2.3	-0.1	0.9	1.6	2.2	2.9
General government net debt	73.2	77.3	87.2	92.6	92.4	92.2	91.0	88.6	85.4	83.2	81.4	73.7
General government gross debt	74.3	78.0	88.0	93.3	93.0	92.8	91.7	89.2	86.0	83.7	81.9	80.0
Current account balance	-6.8	-1.7	-5.7	-8.0	-7.8	-3.5	-5.0	-4.0	-3.9	-3.9	-4.2	-4.0

Source: International Monetary Fund, World Economic Outlook Database, October 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 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 3.2% 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 GDP growth	2.6	5.6	-12.4	1.4	7.7	-2.9	0.1	4.1	5.2	4.2	4.2	4.2
Gross national savings rate	16.6	14.2	1.4	20.6	31.4	18.4	11.0	9.7	8.7	7.6	6.7	5.9
Inflation, average consumer prices	0.4	-0.2	0.6	6.0	5.0	4.4	3.2	3.5	3.5	3.0	3.0	3.0
General government revenue	38.8	35.5	29.1	36.0	42.0	42.9	43.4	39.8	38.3	36.9	35.7	34.7
General government total expenditure	31.1	34.7	41.9	36.3	33.9	44.2	48.4	47.9	47.2	46.6	45.9	45.1
General government net lending/borrowing	7.7	0.8	-12.8	-0.4	8.1	-1.2	-5.0	-8.2	-8.9	-9.8	-10.1	-10.4
General government primary net lending/borrowing	9.0	1.8	-11.6	0.1	8.6	-0.5	-4.0	-7.2	-7.7	-8.2	-8.3	-8.3
General government gross debt	47.1	43.4	76.5	57.6	40.0	44.5	45.9	52.2	57.2	63.0	68.6	74.1
Current account balance	3.7	-0.8	-15.4	6.5	15.4	4.5	-1.9	-3.4	-4.4	-5.3	-5.8	-6.4

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

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