

INITIATION OF COVERAGE

Capital Bank of Jordan



Coverage initiated with an Overweight Rating

Fair Value Estimated at JD 1.96 per share

August 8th 2021

Capital Bank of Jordan

Recommendation: Overweight

Target price JD 1.96 per share

Market price JD 1.64 per share

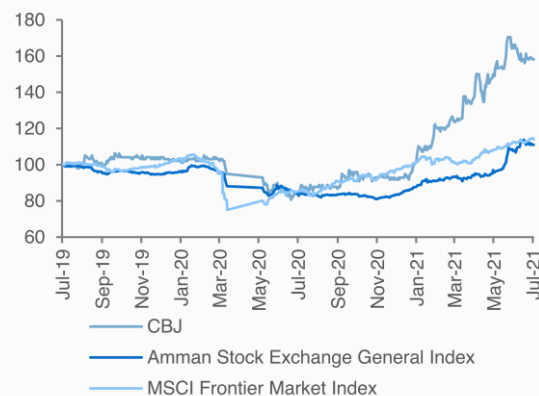
Financials

Bloomberg	EXFB JR
Reuters	EXFB AM
52 week High / Low (JD)	1.70 / 0.85
Market Cap (JD mn)*	328
Volume 6m Avg. (in '000 Shares)	145
Free float	18.3%
EPS CAGR 20 -25F	23.5%
Dividend yield (2021F)	9.1%

*as of 5th August 2021

YE: 31 Dec	2020	2021F	2022F	2023F
Op. income (JD mn)	110.7	126.5	152.1	166.5
% change YoY	18.2%	14.3%	20.2%	9.5%
Net income (JD mn)*	26.0	61.5	54.9	62.0
EPS (JD)	0.13	0.31	0.27	0.31
P/BV (x)	0.6	1.0	0.9	0.8
ROAE (%)	8.4 %	17.8%	14.8%	15.7%
P/E (x)	7.6	5.33	6.0	5.3

*excludes one-offs



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We initiate coverage on Capital Bank of Jordan (EXFB, the Bank) with an Overweight recommendation. Our 12-month price target of JD 1.96 per share, provides an upside of 19.3% from the current level. The Bank is well placed to exploit the growth opportunities arising from Jordan and Iraq post the acquisition of Bank Audi's operations. The Bank's strong business profile, double digit growth in business volumes, lean cost structure (which has further headroom to improve through digital initiatives), resilient asset quality through the COVID-19 period and a well-capitalized balance sheet are some of the key positives. At 1.0x P/B 2021e, the shares are trading at a well justified premium to Jordan banking sector but trading at an 8% discount to MENA peers. The Bank offers a high dividend yield of ~9% (FY 2021F) with sustainable pay-outs of ~65% which is attractive for long term investors.

- **Robust corporate profile having presence across regional economies –** The Bank has expanded its footprint across the MENA region. EXFB is based in Jordan but has established sizeable presence, through its subsidiaries, in Iraq and UAE. The Bank's geographical reach along with its suite of banking products and digitization strategy are an integral part of the growth story. Post pandemic recovery in the Jordanian (Nominal GDP growth >5% in next years as per IMF) and Iraqi markets (Nominal GDP growth of 6%) is expected to be the key driver of credit growth for the Bank over the long term.
- **Acquisition of Bank Audi's assets expanded the Bank's footprint –** In March 2021, EXFB completed the acquisition of Bank Audi's operations in Jordan and Iraq for JD 41.8mn. The transaction resulted in doubling of its branch network in Jordan, while strengthening its presence in Iraq. The Bank's loan and deposit market share increased by ~200 bps in Iraq and by ~100 bps in Jordan post the transaction. We believe the Bank would be able to leverage its position and expand its market share further from hereon.
- **Digitization strategy and key partnerships to drive growth –** Besides, acquisition, the management is also pushing for a digitization strategy (recent partnership with Codebase Technologies to launch Neobank) which we believe would strengthen customer acquisition, income stream and rationalize expenses. Alongside digitization, EXFB is also successfully executing a partnership led growth strategy which we see as a positive. The Bank has partnered with several supranational organisations that offer loan guarantees to regional economies impacted by refugee crisis. In July 2020, European Investment Bank (EIB) provided financing support of EUR 70mn to the Bank for SMEs. The Bank's loan exposure towards the SME segment was ~14% in FY 2020 and they plan to focus in this space going ahead.
- **Presence in Iraq offers long term value in an underpenetrated market –** The Iraqi banking sector, whilst being underpenetrated currently, offers a long term value proposition. The Iraqi regulators are taking unprecedented efforts to promote financial inclusion. The Bank has been operating in the country since 2005 through its subsidiary, National Bank of Iraq (NBI) and currently has a network of 18 branches. We expect private sector banks with strong infrastructure backing to benefit from the trends. Thus, NBI could be a prime beneficiary of the upcoming opportunities in Iraq.

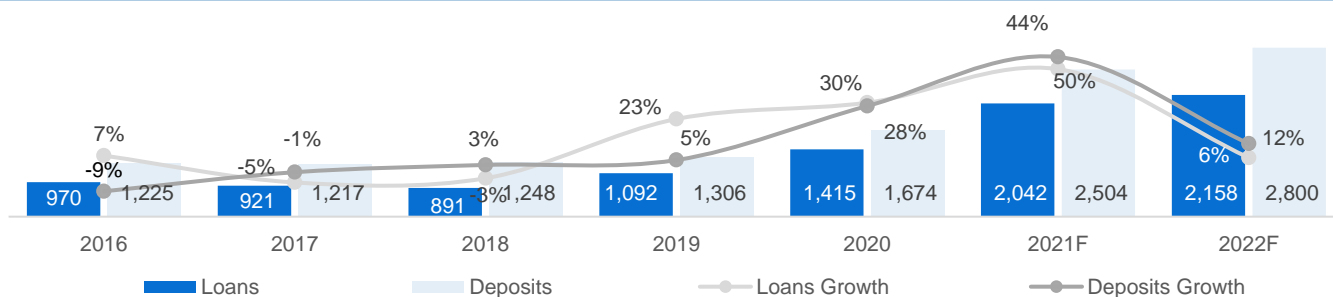
Key Investment Risks: Lower than expected economic recovery in Jordan and Iraq; delayed rate hikes from US Fed limiting headroom to reprice assets; devaluation of Iraqi dinar and geopolitical tension in the region are some of the key investment risks which could impact our fair value estimate.

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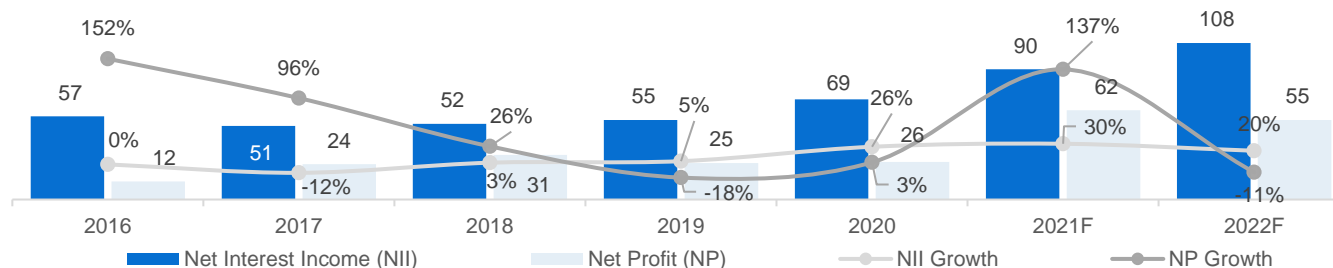
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CBOJ Story in Charts

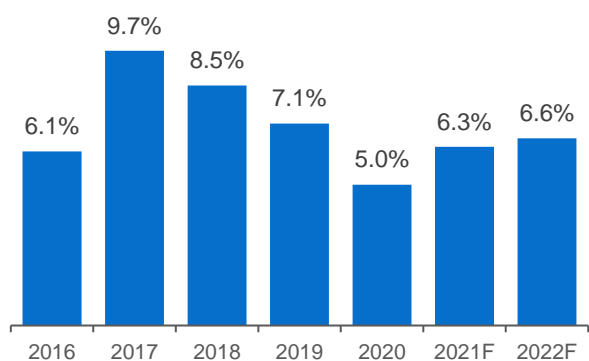
EXFB's loan and deposit book grew strongly in FY 2020 and Q2 2021 – JD mn



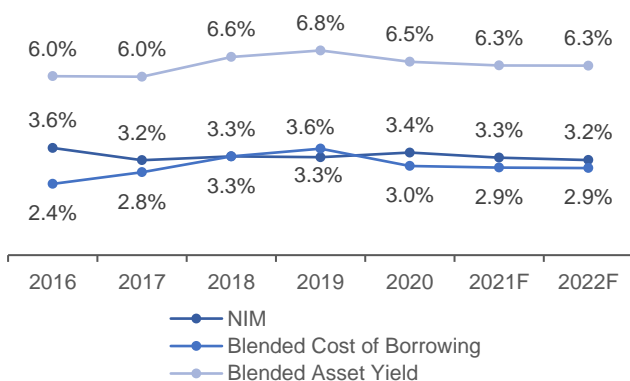
Stable increase in net interest income due to lower borrowing costs – JD mn



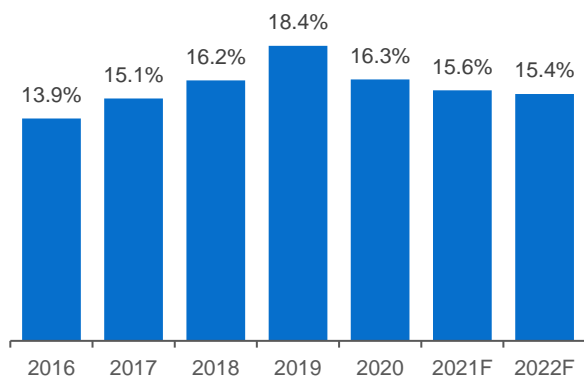
Asset quality improved until acquisition of Bank Audi's operations



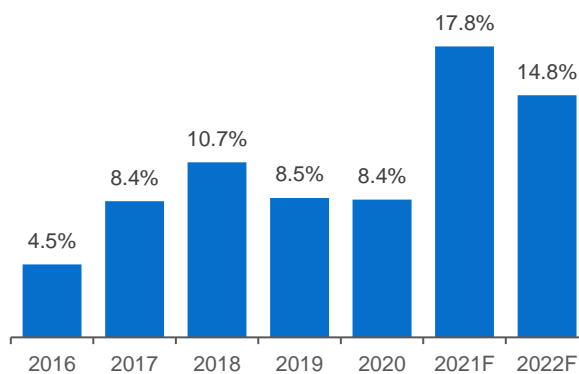
Favourable rate environment supported margins in FY 2020



Capital adequacy levels in line with minimum requirement of 14.0%



Acquisition to support RoE over the long term



Source: Company reports, Mubasher Estimates

Investment thesis

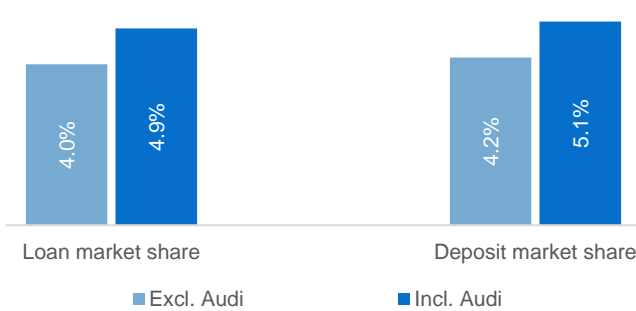
Acquisition of Bank Audi's operation not only expanded EXFB's footprint....

Acquisition helped in increasing the Bank's deposit and loan market share in Jordan and Iraq

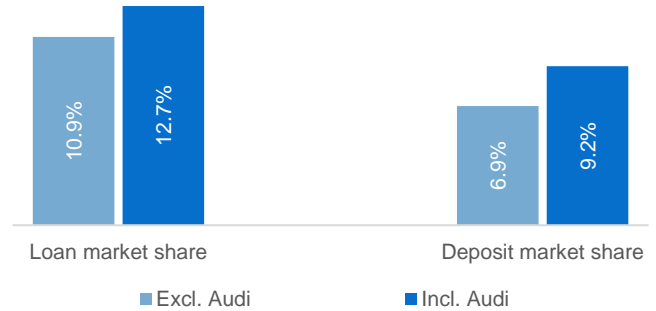
EXFB completed the acquisition of Bank Audi's Jordanian and Iraqi operations in March 2021. The transaction expanded the bank's presence in its key markets, Jordan and Iraq. The Bank's loan market share in Iraq increased from 10.9% to 12.7%, while deposit market share increased from 6.9% to 9.2%. Within the domestic operations also, the bank expanded its footprint, albeit marginally. EXFB's branch network doubled in Jordan to 28 and increased from 13 to 18 in Iraq.

Exhibit 02: Market positioning

Jordanian market positioning



Iraqi market positioning*



Source: Company reports, management estimates, * Based on major private banks financials

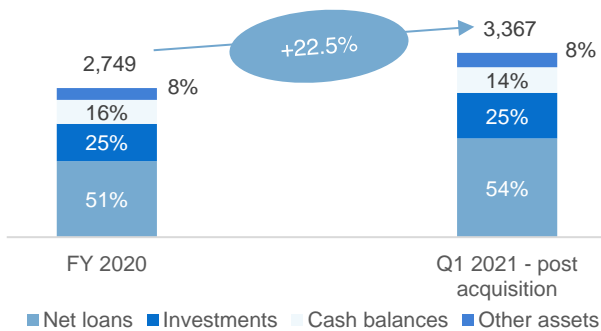
...but also benefited the asset base from an income generation stand-point

Proportion of yielding assets has increased by ~300 bps post the acquisition

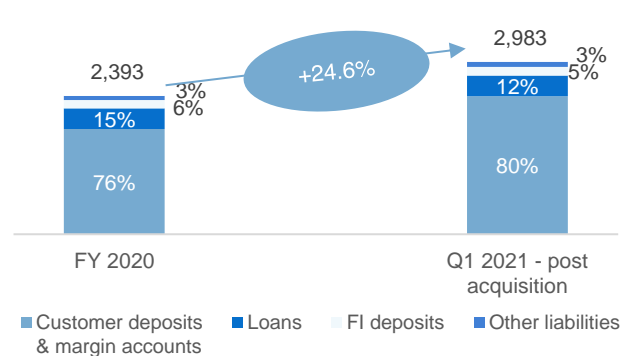
The acquisition helped the bank optimize its asset base to have higher proportion of yielding assets. The proportion of loans in the overall asset base increased from 51% in FY 2020 to 54% as of Q1 2021. The proportion of investments remained largely stable at 25%. On the funding side, the proportion of customer deposits & margins has increased from ~76% as of FY 2020 to ~80% as of Q1 2021. The overall funding base has increased ~25% QoQ in Q1 2021. Non-interest bearing deposits account for ~25% of the total deposit base in Q1 2021, compared to ~20% in FY 2019. The proportion of retail source of funding, which is relatively less vulnerable to downturns, has also increased (58% compared to 56% excl. Audi). The increased proportion of yielding assets is expected to improve the bank's profitability over the long run.

Exhibit 03: Asset and funding base dynamics

Asset breakdown – (JD mn)



Funding break-down – (JD mn)



Source: Company reports

Collaborations with supranational organizations augments the Bank's strategy to focus on SMEs

In July 2020, The Bank received EUR 70mn as from EIB to support provide credit support to SMEs

Capital Bank of Jordan has collaborated with leading regional and global supra-national organizations that help it in offering credit support. In July 2020, the Bank joined hands with European Investment Bank (EIB). Under the collaboration, the Bank received EUR 70mn of financing from EIB to support SMEs and middle market companies in Jordan.

Exhibit 04: EXFB's partnerships with major organizations

Organization	Scope of partnership
International Finance Corp	Providing credit line, access to global network of conforming banks for both Jordan and Iraq
Overseas Private Investment Corporation	Guarantees some proportion of loans granted to SMEs
European Bank for Reconstruction and Development	Trade finance guarantees and revolving credit facilities to SMEs
Jordan Loan Guarantee Corp	Guarantees 70% of loans granted to SMEs
Arab Trade Finance Program	Financing facilities for authorised trade transactions
The Arab Investment & Export Credit Guarantee Program	Credit limit and insurance scheme for eligible trade finance transaction
The Islamic Corporation for the Insurance of Investment and Export	Providing Shariah compliant export and investment insurance

Source: Company reports

Within Jordan the Bank has a partnership with Jordan Loan Guarantee Corp, which guarantees ~70% of loans granted to SMEs. SMEs are an integral part of the Jordanian economy, as they account for more than 95% of local businesses, contribute to more than 50% of GDP, and employ about 60% of the working population.

The Bank's loan exposure towards the SME sector was 14% in FY 2020. Going forward, the management would continue to focus on the SME segment both in Jordan and Iraq, as the segment would benefit from the vaccination programs that negate the effects of the pandemic. Thus, partnerships with the supranational organizations augment the Bank's strategy to focus on SMEs segment.

Multiple digital initiatives to drive customer acquisition, strengthen income stream, rationalize expenses

Digitization initiatives to strengthen customer acquisition, income stream and generate cost savings

EXFB, like its major regional peers, has been focusing heavily on its digital initiatives in order to reduce its reliance on physical transactions. Major initiatives include strategic partnerships with domestic Fintech Company, Liwwa, for SME digital lending, FX / commodity trading in Jordan and Iraq. The Bank also collaborated with telecom companies such as Zain and Asia Cell in Iraq for e-wallets and point of sales cash transactions. As of October 2020, there were over 1.2mn registered e-wallets in Jordan, 42% of which are active. This active rate is high considering the global average of 36%, which reveals not only considerable account uptake but also high usage. The number of active mobile wallets has also increased over 10x since 2017, reflecting sizable market growth since Mobile Money for Resilience initiative was launched in 2017.

The bank is also upgrading its online banking platforms (SwitchOn), improving its call center services, introducing support services on social media platforms. EXFB is the first domestic bank to have completed full integration with Jordan Payments & Clearing Company (JOPACC) to introduce instant payment system through SwitchOn. Within Iraq, NBI became the first bank to launch OTP services and starting issuing instant debit card issuance and Quick personal loans.

In June 2021, the Bank signed a partnership agreement with Codebase Technologies to launch the first digital-only Neobank for its customers in Jordan and Iraq

EXFB signed a partnership agreement with Codebase Technologies to launch the first independent digital-only Neo-bank in Jordan and Iraq to provide integrated digital banking services to individuals and SMEs. With presence in Jordan the bank is well positioned to create a digital-first offering and expand its local and regional reach.

We believe these initiatives would give a competitive edge to the bank, as ~55% of Jordan's total population is between 15 – 50 years of age group. People under this category are fairly inclined towards technology and such initiatives will not only empower Iraq and Jordan's consumers with next-gen banking solutions like seamless digital onboarding, user-friendly workflows, convenient smartphone access, and a wide range of innovative products, but also make it easier for EXFB to acquire new customers given its first mover advantage. Management is also planning to offer digital solutions to its SME and corporate clients. Thus, digitization initiatives would not only make processes efficient, but also lower cost and drive fee income substantially.

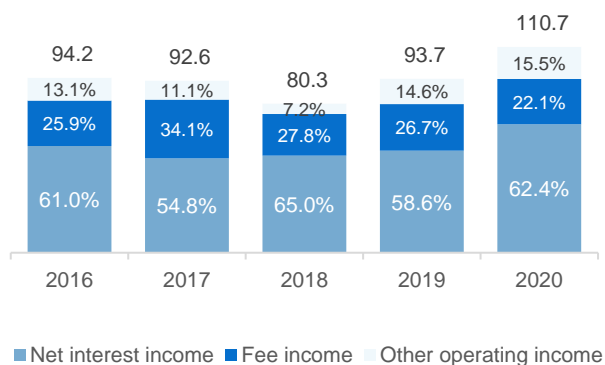
Presence in regional financial hubs (DIFC) provides avenues for providing value added services

Presence in DIFC, value added offerings and acquisition provide significant headroom for fee income growth

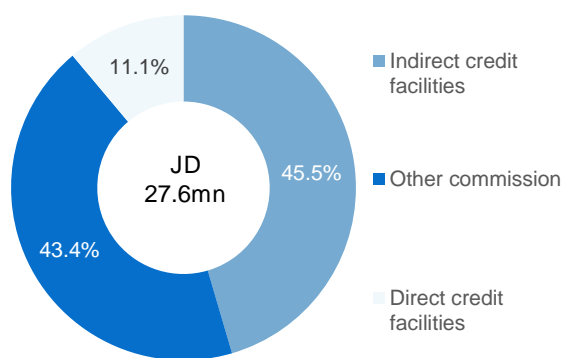
EXFB offers investment services including asset management, corporate finance and advisory within Jordan. The Bank also has presence in regional finance hubs such as Dubai International Financial Centre (DIFC) wherein it offers similar services to clients. The Bank launched mutual funds platform offering more than 30 globally managed mutual funds. These value added products and services provide sustainable fee generation avenues for the bank over the long run.

Exhibit 05: Fee income dynamics

EXFB income stream – JD mn



Fee / commission income proportion – FY 2020



Source: Company reports

Moreover, the acquisition has also strengthened the fee generating capacity for the bank through the means of better reach in both markets. Thus, the bank's non-interest income is expected to receive a strong boost through its acquisitions and product offerings.

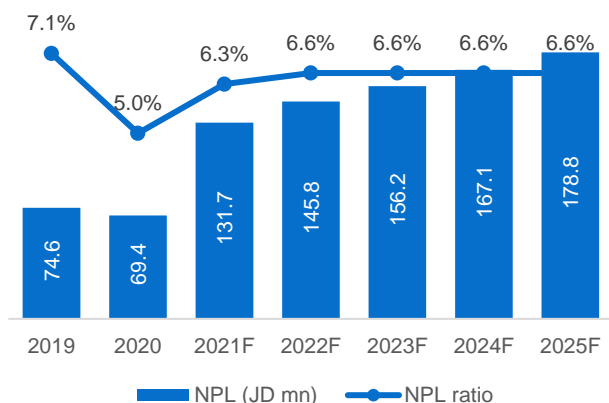
Asset quality to improve after witnessing a temporary deterioration

EXFB's asset quality had improved substantially, before seeing a temporary deterioration post the acquisition

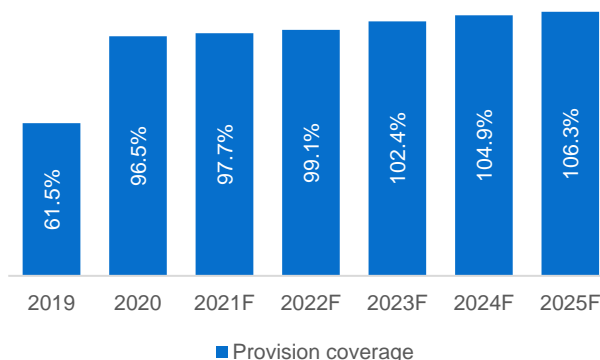
Capital Bank of Jordan's NPL ratio spiked post the acquisition of Bank Audi's branches. NPL ratio increased from 5.0% at the end of FY 2020 to 6.8% at the end of Q1 2021 (6.3% as of June 2021). The Bank's accumulated stage 3 provisions reached JD 100.9mn compared to its stage 3 exposure of JD 197.4mn as of June 2021. We expect the asset quality to remain under pressure for quite some time, as the forbearance period from central bank comes to an end in H1 2021. However, it is expected to start improving over the long term.

Exhibit 06: Asset quality trends

NPL and NPL ratio



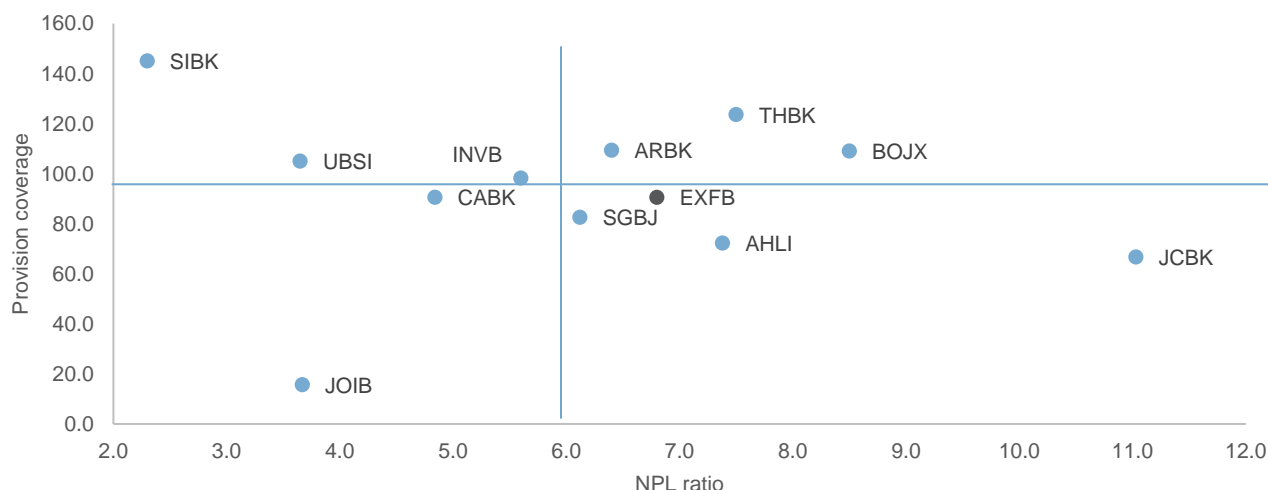
Coverage ratio



Source: Company reports, Mubasher estimates

In terms of asset quality, the Bank’s NPL ratio is fairly higher than the average NPL ratio amongst the listed banks in Jordan (6.0%). Moreover, the coverage ratio of the Bank (90.5%) is lower than the average coverage amongst the listed banks (95.3%).

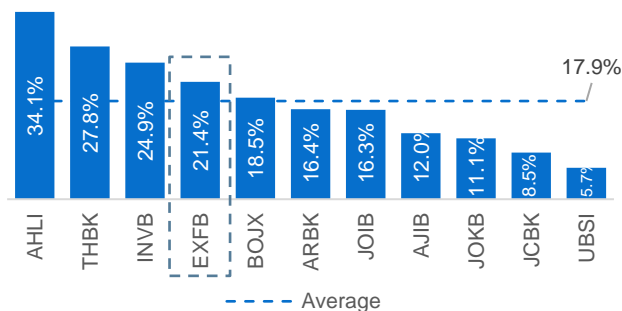
Exhibit 07: EXFB’s NPL and provision coverage ratios remains above and below sector average, respectively – Q1 2021



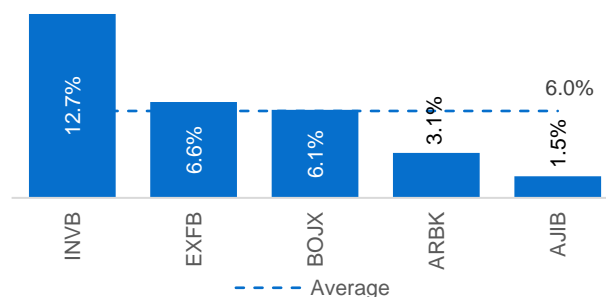
Source: Company reports, Bloomberg

Exhibit 08: Jordan banks’ exposure towards key economic sectors – FY 2020

Real estate and construction exposure



Tourism and transport exposure

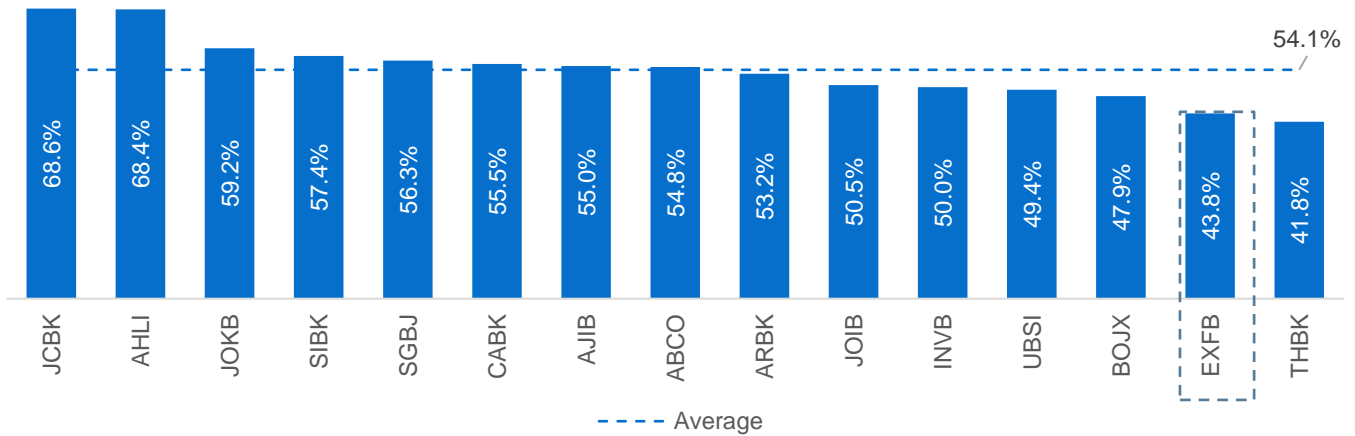


Source: Company reports

At 43.8%, EXFB's cost-to-income ratio is one of the lowest among the listed Jordanian banks

EXFB has one of the best operating efficiencies among the Jordanian banks. The average cost-to-income ratio among the listed Jordanian banks was close to ~54% in Q1 2021. At 43.8%, EXFB's cost-to-income ratio is far below the average levels and one of the lowest in the domestic banking space. JCBK had the highest cost-to-income ratio at 68.6% during the period, while THBK had the lowest cost-to-income ratio at 41.8%.

Exhibit 09: Cost-to-income ratio – Q1 2021



Source: Company reports, Bloomberg

NBI is expected to be the prime beneficiary of the financial inclusion measures taken by the Iraqi regulators

Expansion in Iraq – a long term value proposition in an underpenetrated market

Iraq's banking sector is fairly underpenetrated as of now with only 25% of the domestic adults having bank accounts. Similarly, only 2% of the adults have credit cards while only 30% of the bank account holders have deposited their money into their accounts in the last 12 months. Currently, state-owned banks hold ~80% banking sector's total assets and 90% of the total deposits, leaving significant growth headroom for private banks.

The country's regulators are taking efforts to increase financial inclusion with the help of global organizations.

- For example, the public sector organizations are planning to transfer salaries to its employees through a selected group of private banks.
- In order to reinstate confidence among the population to utilize banking services, the regulators are in talks to launch a deposit guarantee fund. The fund would ensure bank account holders can easily withdraw cash as per their requirements.

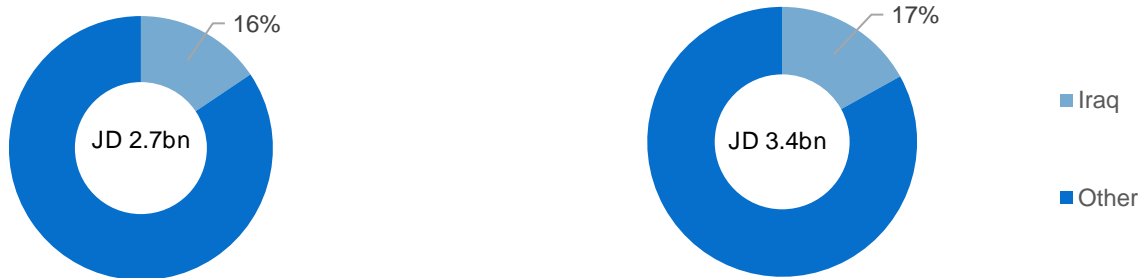
We opine that private banks having strong infrastructure backing would be the key beneficiaries of the banking reforms that are currently underway.

Capital Bank of Jordan established its presence in Iraqi market back in 2005. Post that the country has faced several challenges in the form of geopolitical unrest. However, with normalization patterns and stability in oil prices, economic conditions are expected to improve from hereon. In 2021 the bank expanded its footprint further through the acquisition of Bank Audi's assets in the country. Post the acquisition, Iraqi operations account for 17% of the total assets as of Q1 2021. With a network of 18 branches across the nation, we expect NBI to remain the key beneficiary of the banking sector reforms in the country.

Exhibit 10: Proportion of Iraqi assets in EXFB's balance sheet

FY 2020

Q1 2021



Source: Company reports

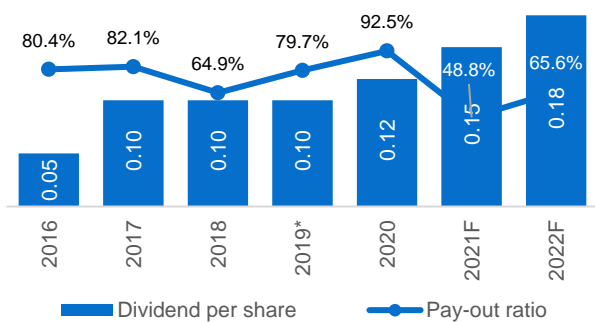
EXFB's dividend yields are amongst the highest in the listed Jordanian banking sector

EXFB has been paying out ~80% of its earnings in dividends in the last 5 years. Dividend per share stood at JD 0.12 per share for FY 2020. At current levels, this provides an attractive yield of ~7%, which is one of the highest amongst the listed banks in Jordan. We believe the dividend payouts to remain sustainable over the coming years, as the bank would generate incremental earnings from the consolidation of Bank Audi's Jordanian and Iraqi operations. We have assumed FY 2021 dividend to be at JD 0.15 per share, strong pay-out patterns seen in the past. At current levels, EXFB's dividend yield is amongst the highest within the Jordanian banks.

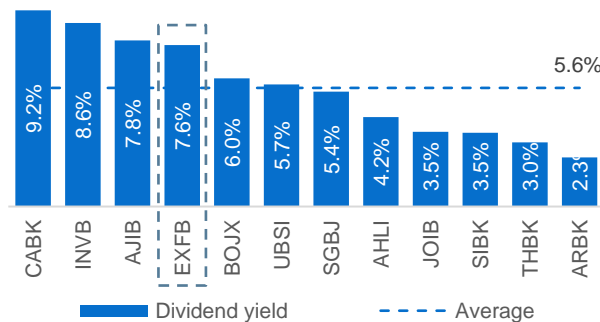
The stock offers an attractive dividend yield of ~8%, one of the highest among the listed Jordanian banks

Exhibit 11: Dividend payment history

DPS (JD) and pay-out ratio above 80%



Attractive dividend yield - TTM



Source: Company reports, Bloomberg, Mubasher estimates, *Dividends for 2019 announced, however postponed due to Central Bank of Jordan's instructions to all Banks following the onset of COVID-19

Valuation & Recommendation

We have initiated coverage on EXFB with an Overweight rating and a price target of JD 1.96 per share, which translates to an upside of 19.3%.

The stock has rallied by 67% YTD, and has been able to outperform Amman Stock Exchange General Index (+23%). The outperformance could be largely due to the closure of acquisition of Bank Audi's operations. This has resulted in the PB ratio increasing to 1.0x mark from 0.6x in the past years. Despite the run-up, the stock offers additional headroom for growth from hereon, considering the expanded footprint.

The stock's PB has increased to 1.0x post the recent rally in share prices

Exhibit 12: EXFB PB ratio trajectory



Source: Bloomberg

Our 12-month fair value estimate is based on a weighted average of Residual Income (40%), Justified PB (40%) and Relative Valuation (20%) methodologies.

Exhibit 13: Valuation summary

Methodology	Weightage	JD per share
Residual Income	40.0%	2.04
Justified PB	40.0%	2.01
Relative Valuation	20.0%	1.68
Target valuation		1.96
Current market price (JD)		1.64
Upside/(Downside)		19.3%

Source: Mubasher estimates

Residual income method yields a value of JD 2.04 per share
The valuation is based on the 5-year Bank's residual income. Beyond FY 2025F we have estimated the terminal value of the residual income, based on the terminal growth rate of 3.5%. With this we value the stock at JD 2.04.

Exhibit 14: Residual income valuation summary

Particulars (JD '000)	2020	2021F	2022F	2023F	2024F	2025F	Terminal
Forecast equity (adjusted for one-offs)	307,363	319,525	369,796	395,842	424,142	454,756	
Forecasted net profit (adjusted for one-offs)		36,162	54,895	62,045	68,300	74,614	
Capital charge (Average forecasted equity * COE)		45,329	49,843	55,362	59,291	63,551	
Economic value added		(9,167)	5,052	6,683	9,009	11,063	104,454
NPV		(8,679)	4,178	4,829	5,685	6,981	65,917
Book value Q2 2021	328,319						
EVA flows 2021-2025	12,995						
Terminal value	65,917						
Target equity value	407,231						
Shares outstanding ('000)	200,000						
Target value per share (JD)	2.04						

Source: Company reports, Mubasher estimates

Exhibit 15: Cost of equity calculations

Assumptions	
Risk free rate	5.2%
Beta	1.02
Risk premium	9.1%
Cost of equity	14.5%
Terminal growth rate	3.5%

Source: Bloomberg, Damodaran

Cost of equity calculations considers the yield of the 10-year Jordanian bond (5.2%), beta based on the daily price performance of the stock, vis-à-vis the Amman stock exchange index for the last two years. Terminal growth rate is assumed at 3.5%, considering the average GDP growth rate for Jordan & Iraq over the next 5 years.

Exhibit 16: Sensitivity analysis (JD per share)

Cost of Equity	Terminal Growth Rate					
	1.5%	2.5%	3.5%	4.5%	5.5%	
12.4%	2.47	2.54	2.62	2.73	2.86	
13.4%	2.21	2.25	2.30	2.37	2.45	
14.4%	1.98	2.01	2.04	2.07	2.12	
15.4%	1.78	1.80	1.81	1.83	1.85	
16.4%	1.61	1.62	1.62	1.63	1.63	

Fair value estimated at JD 2.01 per share based on a justified PB multiple of 1.17x

We forecast EXFB's sustainable RoAE to be 16.3% based on the 5-year average between FY 2021F and FY 2025F. Based on the sustainable RoAE, cost of equity and terminal growth rate, we have arrived at a justified PB multiple of 1.17x. Based on the justified PB multiple and FY 2021F book value per share of JD 1.72, the stock is valued at JD 2.01 per share.

Exhibit 17: Justified PB valuation

Justified P/B	
ROAE (Sustainable)	16.3%
Cost of Equity	14.5%
Terminal growth rate	3.5%
Target P/BV	1.17
Book value 2021F	1.72
Value per share (JD)	2.01

Source: Company reports, Mubasher estimates

Peer valuation yields a fair value of JD 1.68 per share

For relative valuation, we have considered MENA banks having market capitalization of + / - 20% of EXFB's market cap. Our fair value estimate is based on Q2 2021 book value per share of JD 1.64, target PB multiple of 1.02x. The stock is valued at JD 1.68 per share, based on these considerations.

Exhibit 18: Relative valuation

PB valuation	
Weighted average PB multiple	1.02x
Discount / Premium	0.0%
Target multiple	1.02x
Book value per share (JD)	1.64
Value per share (JD)	1.68

Source: Mubasher estimates

Exhibit 19: Peer table (as of 5th August 2021)

Banks	Market Cap (USD mn)	P/E(x)	P/B (x)	ROE (%)	ROA (%)	NPM (%)
Capital bank of Jordan	457	6.5	1.0	8.4%	0.9%	19.9%
Jordanian Peers						
Arab Bank Plc	4,557	21.7	0.5	1.9%	0.3%	11.4%
The Housing Bank for Trade and Finance	1,773	27.7	1.1	4.1%	0.5%	12.6%
Jordan Islamic Bank	960	12.6	1.4	11.5%	1.1%	30.6%
Bank of Jordan	573	11.4	0.9	8.1%	1.3%	23.2%
Bank Al Etihad	386	11.2	0.7	5.9%	0.5%	12.7%
Cairo Amman Bank	365	11.5	0.7	6.3%	0.7%	13.2%
Jordan Ahli Bank	272	30.7	0.6	2.0%	0.2%	8.7%
Arab Jordan Investment Bank	260	16.3	0.9	5.7%	0.6%	16.8%
Safwa Islamic Bank	250	16.4	1.1	6.8%	0.6%	19.2%
Societe General De Banque	205	23.7	0.9	4.2%	0.4%	18.8%
Jordan Kuwait Bank	292	NA	0.5	-0.7%	-0.1%	-2.9%
Invest Bank Co	195	17.3	0.8	3.2%	0.5%	10.7%
Jordan Commercial Bank	134	13.4	0.7	0.4%	0.0%	1.2%
Arab Banking Corp of Jordan	137	22.5	0.6	2.7%	0.4%	2.9%
Weighted average* (Jordanian peers)		19.8	0.8	4.0%	0.5%	13.9%
MENA Peers						
Banque Tunisie (Tunisia)	507	14.7	1.5	10.6%	1.6%	35.5%
Attijari Bank (Tunisia)	458	9.1	1.4	17.2%	1.4%	24.6%
Credit Agricole Egypt (Egypt)	476	5.7	1.0	19.2%	2.5%	34.9%
Al Salam Bank Bahrain (Bahrain)	475	14.1	0.6	NA	NA	16.5%
Ajman Bank (UAE)	429	20.1	0.6	3.2%	0.4%	8.9%
Bank Nizwa (Oman)	378	12.6	0.9	7.3%	1.0%	28.2%
Weighted average* (MENA peers)		12.7	1.0	9.7%	1.1%	25.0%
Weighted average* (all peers)		18.3	0.8	5.2%	0.6%	16.2%

Source: Bloomberg, *weighted average based on market cap

Risks to valuation

Lower than expected economic recovery: The post pandemic recovery in Jordanian and Iraqi markets would play a key role in determining credit demand. Delayed ramp-up in vaccines, outbreak of new waves of COVID-19 infections could be detrimental to the economic outlook, credit growth, asset quality and our estimates for the bank.

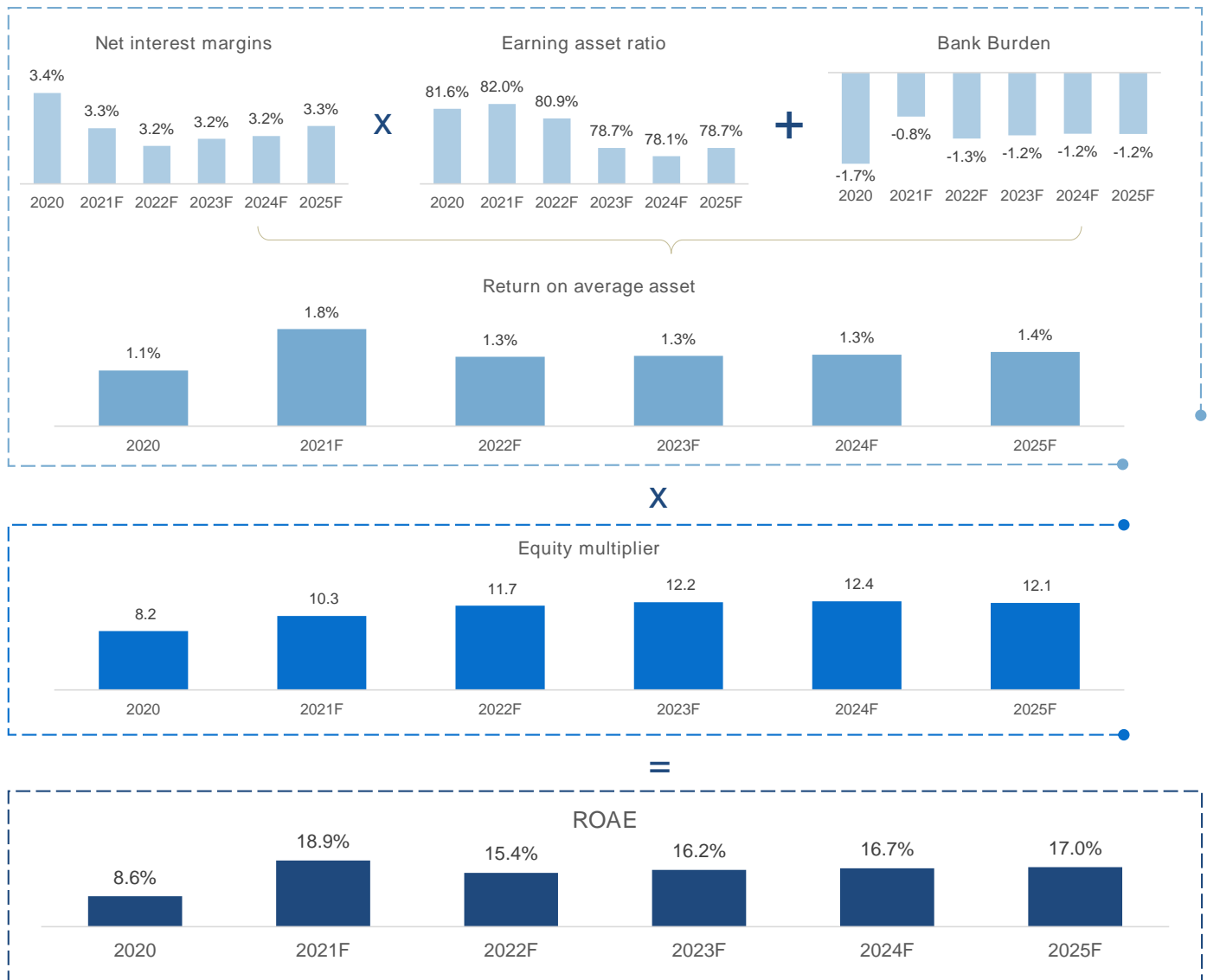
Delayed rate hikes from US Fed: Jordan's central bank largely follows policy decisions taken by US Federal Reserve (Fed), as the currency is pegged to the USD. If the US Fed decides to postpone its rate hikes (beyond FY 2023 as per our assumptions), the bank might not be able to reprice its assets at higher rates. This would impact the bank's profitability.

Slower than expected economic recovery in Jordan and Iraq could limit the Bank's profitability and impact our estimates

Devaluation of Iraqi dinar: In December 2020, Central Bank of Iraq devalued the domestic currency by ~20% against the dollar. This had a negative impact on the bank's Iraqi assets, as JD is pegged to USD. However, the Bank implements timely hedging practices to mitigate the market risk arising out of Iraq.

Geopolitical tensions in the region: MENA region's geopolitical environment has remained vulnerable in the past. Persistent tensions in the bank's key markets like Iraq could be detrimental to NBI's credit growth and profitability. This could have a major impact on our fair value estimates.

Exhibit 20: DuPont Analysis



Source: Company reports, Mubasher estimates

Corporate overview

Incorporated in 1995, Capital Bank of Jordan offers commercial and investment banking services and solutions. In addition, the bank provides a number of investment and financial brokerage services through Capital Investments, its wholly owned subsidiary.

The bank operates across Middle East with branches in UAE and Iraq through Capital Investments and National Bank of Iraq, respectively. Geographic presence in Europe, Asia and America is through the services offered by its investment arm. The bank provides its services through a network of 28 branches in Jordan and 18 in Iraq

Credit Ratings Table

Capital Intelligence Ratings has affirmed EXFB's standalone Rating (BSR) of 'B+', Core Financial Strength (CFS) rating of 'BB', and Extraordinary Support Level (ESL) of Moderate. The Outlook for BSR is Stable.

Exhibit 21: EXFB credit rating

Rating Agency	Capital Intelligence
Date	March 2021
Rating	B+
Outlook	Stable

The Bank operates in Jordan, Iraq and UAE. It has been into business since last 25 years

Segmental overview

Capital Bank of Jordan conducts its business through four segments

Treasury segment provides trading and treasury services, as well as handles the bank's money management mechanism. In H1 2021 treasury department generated JD 31.7mn in income (30.7% of the total income).

Corporate banking includes accepting deposits, and granting credit facilities and other specialized banking services to corporate customers. In H1 2021 corporate banking generated an income of JD 46.5mn contributing 44.9% to the total income.

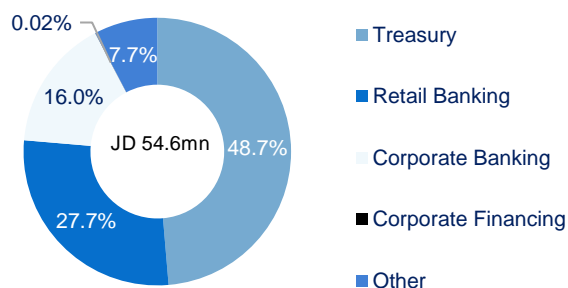
Personal banking segment includes individual customers' deposits, credit facilities, credit cards and other services. In H1 2021 the retail banking generated an income of JD 20.8mn contributing 20.1% to the total.

Corporate finance segment provides specialized structured funding arrangements and issuance of Initial public offerings (IPO). This segment contributed less than 0.1% by generating revenue of JD 13,545 only. The segment is expected to grow gradually in the coming years.

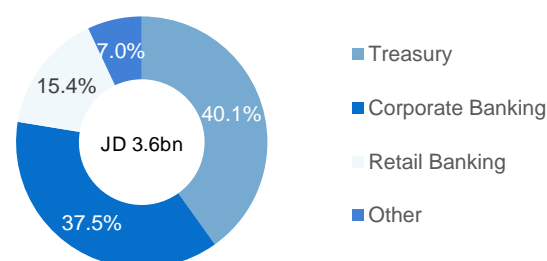
Treasury and corporate banking segments account for ~78% of the total assets in H1 2021

Exhibit 22: Segmental overview

Adj. Segment profitability - H1 2021*



Segment assets - H1 2021



Source: Company reports, *adjusted for one-offs

Timeline and acquisition history (NBI and Bank Audi)

In 2005, Capital bank of Jordan acquired majority stake (61.89%) in NBI, which gave it control of 10 branches of NBI. Earlier this year EXFB completed the acquisition of Bank Audi's Jordanian and Iraqi operations.

The Bank acquired majority stake in NBI 2005 and completed the acquired Jordanian and Iraqi operations of Bank Audi in March 2021

The deal was finalized on March 11th 2021. Bank Audi's assets in Jordan and Iraq were ~JD 650mn at the end of December 2020. The acquisition expands EXFB's asset base to JD 3.5bn, raising its shareholder equity to ~ JD 400mn. Post the acquisition of Bank Audi's operations, EXFB has a network of 28 branches across Jordan and 18 branches in Iraq.

Subsidiary Companies

Apart from Jordan and Iraq, the bank also has presence in UAE and Bahrain, where it offers consultancy and investment services.

Exhibit 23: Major subsidiaries

Subsidiary Company	Capital Investment	National Bank of Iraq	Capital Investments (DIFC Limited)	Bahrain Investment Fund Company
Company Type	Limited Liability	Public Shareholding	Limited Liability	Bahrain Shareholding (Closed)
Company Activity	Investment Banking and Financial Brokerage	Banking	Investment Advisory	Founding of Investment Funds
Country of operations	Jordan	Iraq	DIFC (UAE)	Bahrain
EXFB Ownership %	100.0%	61.9%	100.0%	100.0%

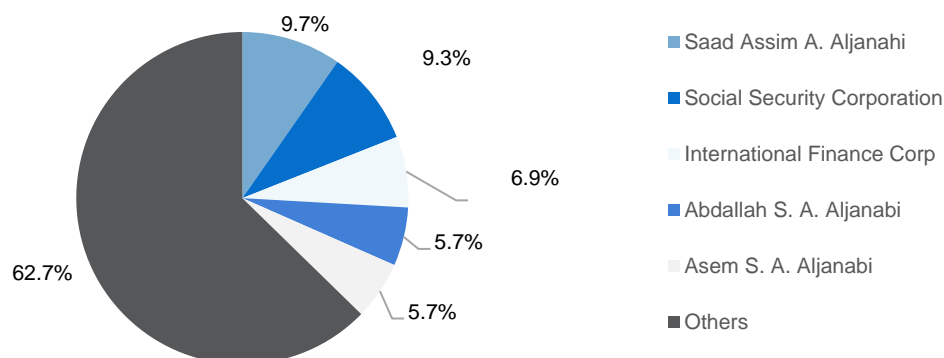
Source: Company reports

Shareholding structure

Major Jordanian families / shareholding groups hold a large share, with stable holdings over the years. Several of whom are also founders and early investors in the Bank. Other key shareholders of the bank include major local family holdings including Darwazeh, Al Salem, Nuqul, Kolaghassi, among others.

Exhibit 24: Shareholding structure

Notable Jordanian family holdings are the major shareholders of the Bank



Source: Bloomberg

Management overview

EXFB has made recent changes in the management including the new appointment of CEO Dawod Al Ghouh in March 2020.



H.E. Bassem Khalil Salem Al-Salem – Chairman

- One of the founders of Capital Bank and has been Chairman since 2010. He previously served as the Jordanian Minister of Labor and Minister of Finance consecutively (2005 – 2009)
- Previously served as chairman of the Association of Banks in Jordan (2012 – 2015), executive chairman of the Social Security Corporation (2005 – 2009), and has also been a member of the Jordanian Senate (2010 – 2011)
- Mr. Al-Salem holds a bachelor's degree (with honors) in chemical engineering from Imperial College, United Kingdom



Dawod Al Ghouh – Chief Executive Officer

- Mr. Al Ghouh has worked for more than 26 years in financial and strategic planning, as well as investments and financial restructuring
- Mr Al Ghouh previously was on the board of directors of Capital Bank, as well as other regional financial institutions in Jordan, Tunisia and Libya, including International Islamic Arab Bank, Wahda Bank and Arab Tunisia Bank
- Mr. Al Ghouh is a US-Certified Public Accountant (CPA) and earned his MSc in Accounting and Finance from the University of Colorado, as well as a BSc in Accounting from the University of Jordan



Manar Mohammad Abdulhalim AINsour – Chief Financial Officer

- Ms. Al Nsour has close to 17 years of experience in finance
- She held various managerial positions at Capital Bank before assuming the role of chief financial officer as of July 30, 2016
- She has a Bachelor's degree in Accounting from the University of Jordan

National Bank of Iraq Overview

In 2005, Capital bank of Jordan acquired majority stake (61.9%) in National bank of Iraq (NBI). Established in 1995, NBI offers banking services to individual and corporates in Iraq. NBI has total of 18 branches in Iraq with 387 employees. It has total assets worth of USD 804.6mn and shareholders' equity of USD 200.4mn as of Q1 2021.

Credit Ratings Table

Post the acquisition of Bank Audi operations, NBI has a network of 18 branches within Iraq

Capital Intelligence Ratings has affirmed NBI Standalone Rating (BSR) of 'B-', Core Financial Strength (CFS) rating of 'BB', and Extraordinary Support Level (ESL) of Moderate. The Outlook for BSR is Stable.

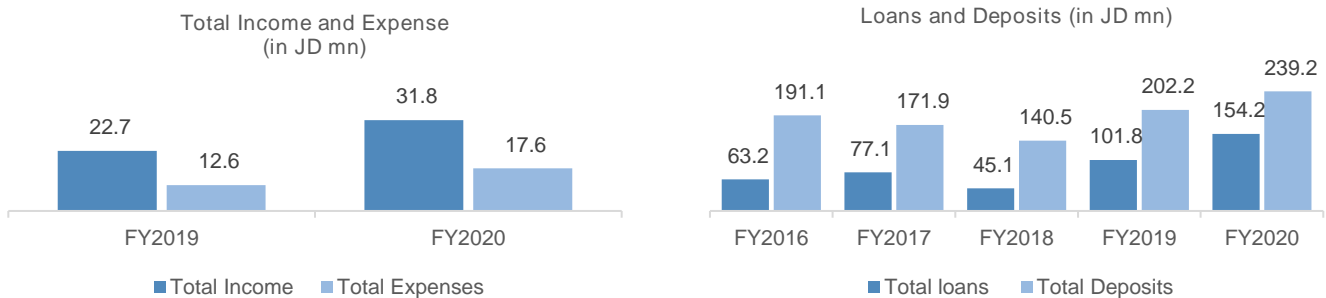
Exhibit 25: National Bank of Iraq credit ratings

Rating Agency	Capital Intelligence
Date	March 2021
Rating	B
Outlook	Stable

Key Metrics

Through the National Bank of Iraq (NBI), the Treasury and Investment Department expanded its operations in Iraq and provided NBI's staff with the necessary experience to increase market share.

Exhibit 26: NBI income, loans and deposits



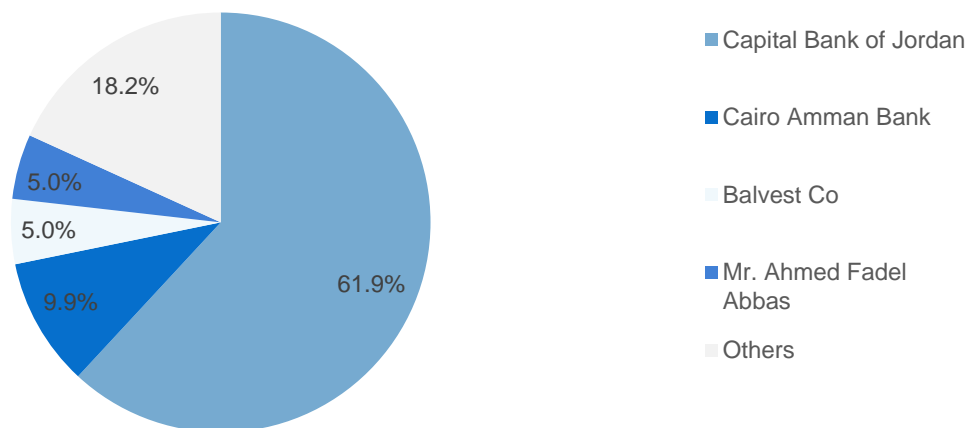
Shareholding structure

EXFB is NBI's major shareholder, with a 61.9% share, it offers significant support to NBI's operations while providing strategic roadmap.

EXFB (61.9%) and Cairo Amman Bank (9.9%) are major shareholders of NBI

Cairo Amman Bank which is one of Jordan's leading banks owns ~10% of NBI. The remaining shareholding structure includes a list of reputable organizations and individuals apart from a minor free-float.

Exhibit 27: NBI shareholding structure



Source: Company report

Financial Analysis

EXFB's loan growth to average ~14% over the next 5 years

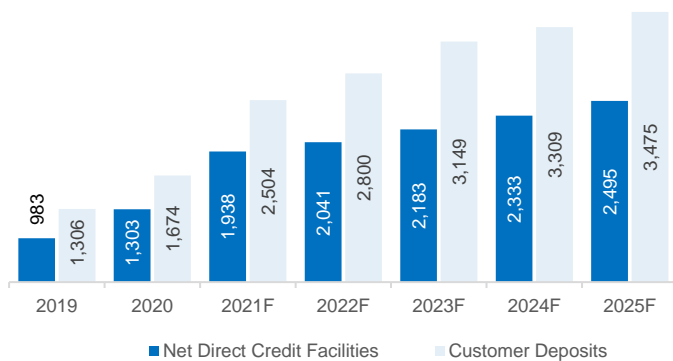
Net credit facilities to grow at a CAGR of 13.9% between FY 2020 and FY 2025. EXFB plans to focus on lending to the SME sector, recognizing it as one of the main drivers of the national economy, providing job opportunities and contributing to economic growth. In terms of sectoral exposure, the management plans to focus on government entities, A-rated large corporations and other risk averse sections.

In 2020, the bank's deposit base grew by 28.2% largely driven by strong growth in current & demand deposit (+45.7%) and time and notice deposits (+25%), recording the highest growth rate in the sector. Going ahead, customer deposits are expected to grow at a CAGR of 15.7% through 2025. The management plans to increase its share within the domestic deposits through the means of consumer banking (CASA deposits) and attracting new wholesale relationships.

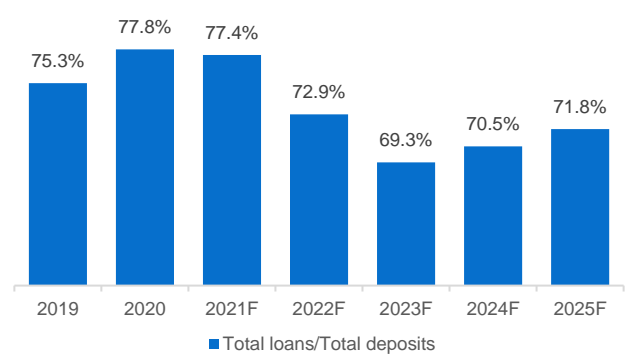
EXFB would be focusing on SMEs, government and other A-rated corporates in terms of lending going forward

Exhibit 28: Loans and deposit growth

Net credit facilities and customer deposits (JD mn)



Loans to deposit ratio



Source: Company Reports and Mubasher Estimates

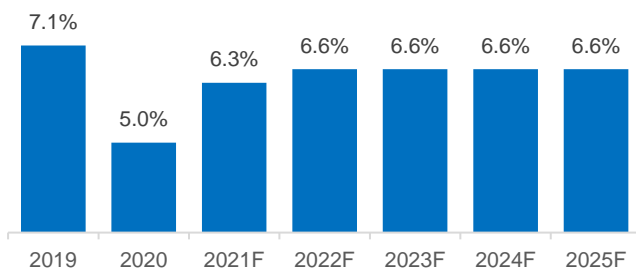
NPL ratio to improve after increasing considerably in Q1 2021

The bank's asset quality has improved consistently in the last few years (from 9.7% in FY 2017 to 5.0% in FY 2020), before deteriorating substantially in Q1 2021 (6.8%) due to impact of Bank Audi acquisition. We expect the NPL ratio to remain elevated in this year, post the completion of forbearance period in June 2021. However, we expect the trend to improve thereafter. Coverage ratio is expected to reach 100% mark by the end of FY 2023.

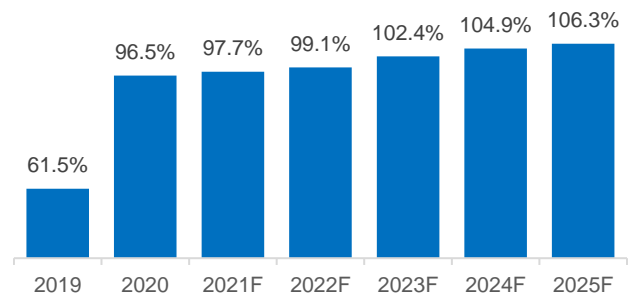
Asset quality to improve beginning FY 2022, as economic situation stabilizes

Exhibit 29: Asset quality trends

NPL Ratio



Non-Performing Coverage Ratio



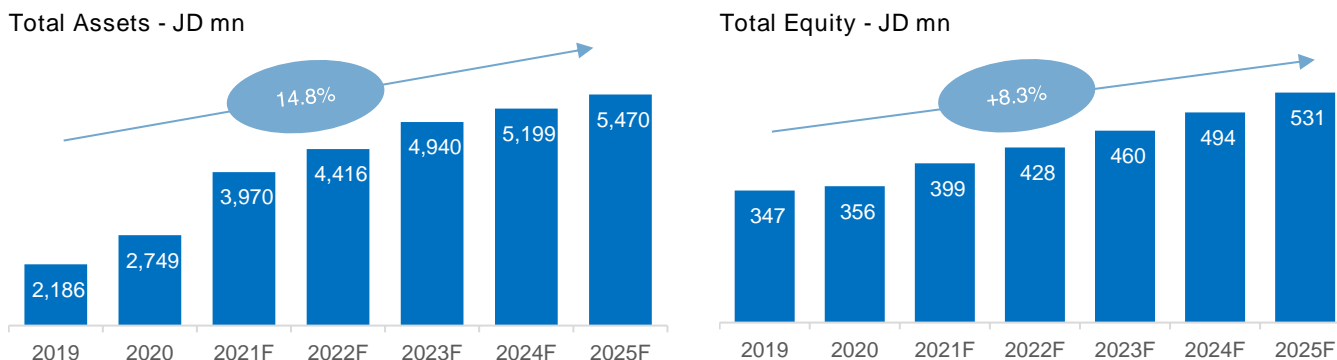
Source: Company Reports and Mubasher Estimates

Asset base to grow by ~15% (CAGR) between FY 2020 and FY 2025

Asset base to reach JD 5.5bn by end of FY 2025

The Bank's total assets are expected to reach JD 5.5bn in FY 2025 from JD 2.7bn in FY 2020. Consolidation of Bank Audi's assets remains the primary driver for growth in assets. We assume total investments to reach JD 1.4bn by FY 2025, compared to JD 0.7bn in FY 2020, as the bank continues to invest in government securities and adopt a conservative approach in terms of investments. Total shareholders' equity (including non-controlling interests) is expected to reach JD 531mn in FY 2025 from JD 356mn in FY 2020.

Exhibit 30: Key balance sheet line items



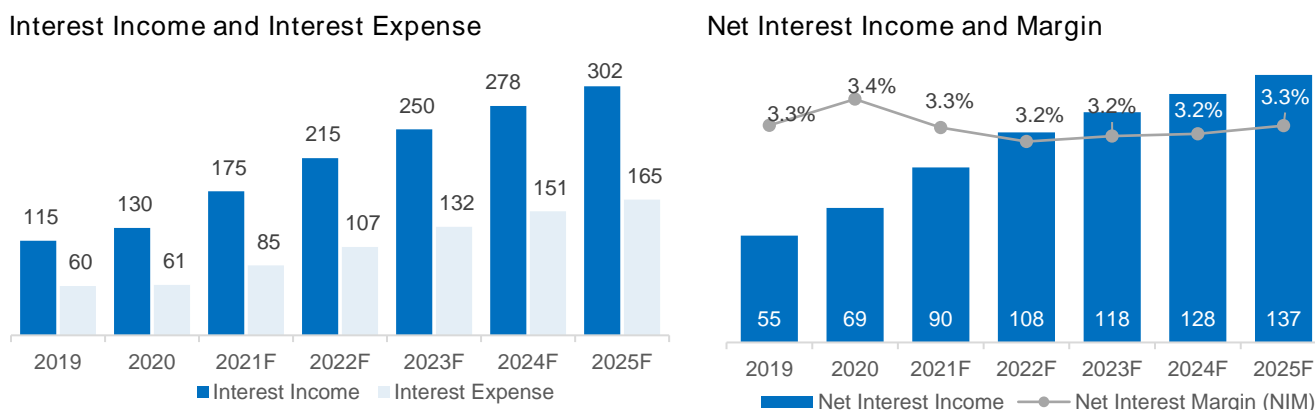
Source: Company Reports and Mubasher Estimates

EXFB would be able to reprice its assets at higher rates, post the rate hikes from US Fed

NIMs to receive a boost from Fed rate hikes over the next couple of years

EXFB's interest income is expected to grow strongly (CAGR 18.3%) over the coming years, on the back of incremental income from Audi operations and expected US Fed rate hikes. We expect the US central bank to increase rates in FY 2023 which would allow the Bank to reprice its assets at higher rates thereafter. Similarly, interest expenses are expected to increase ~22% due to the above factors and a higher growth is assumed in deposits compared to loans, as the bank would look to maintain strong liquidity. Consequently, net interest income is expected to grow at a CAGR of 14.7% to reach JD 137.4mn by FY 2025.

Exhibit 31: Net interest income and margins



Source: Company Reports and Mubasher Estimates

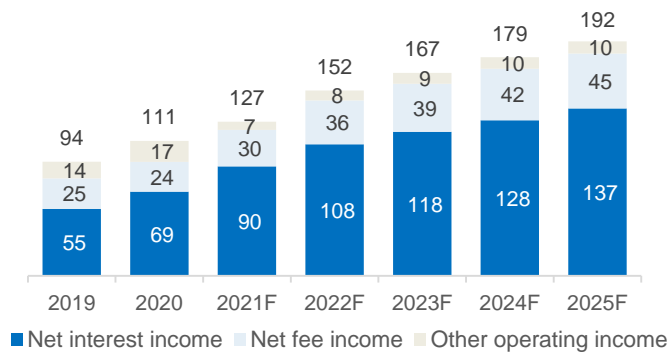
Improvement in economic situation, and increased market positioning to drive growth in fee income

Traction in fee income to remain strong

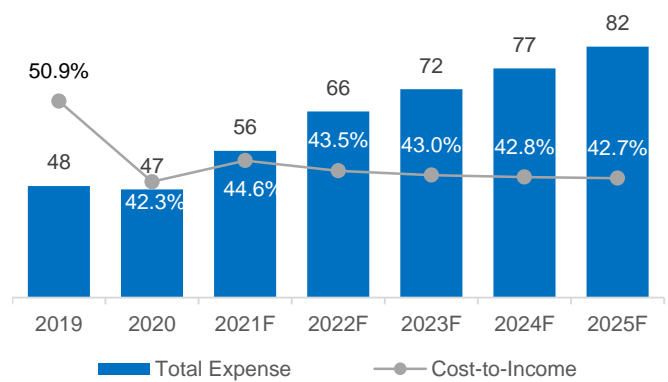
The Bank offers a suite of value added services to its customers across Jordan, Iraq and UAE. In FY 2020, the Bank was able to increase its gross fee income by ~3%, despite nation-wide lockdowns and slowdown in economic activities. Going forward, we assume fee income growth to remain strong, on the back of acquisitions, advisory services and presence in UAE. We project fee income to increase at a 5-year CAGR of 12.4% during FY 2020 and FY 2025 to reach JD 49.4mn, while total operating income to reach JD 192mn (CAGR +11.7%).

Exhibit 32: Income and expenses trends

Total Operating Income – JD mn



Total expenses – JD mn



Source: Company Reports and Mubasher Estimates

Digitization efforts to operating efficiencies. Cost-to-income ratio to decrease to 43% by FY 2025

Cost-to-Income to gradually decline on the back of digitization initiatives and acquisition synergies

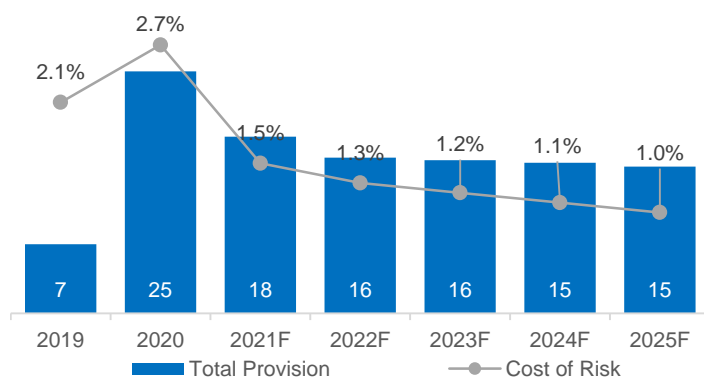
During FY 2020 total expenses reduced by ~2%, as the bank was able to rationalize its training and insurance expenses without impacting its direct staff costs. The management estimates costs to increase as the effect of the pandemic phases out. At the same time, the Bank is also increasing to rationalize its costs through several digitization initiatives. Moreover, the management is also expected to generate significant cost synergies from the acquisition. Thus, we expect cost-to-income ratio to decrease to 42.4% in FY 2025, compared to ~46% in Q2 2021.

Provisioning to remain elevated in the short term, as economy navigates out of pandemic

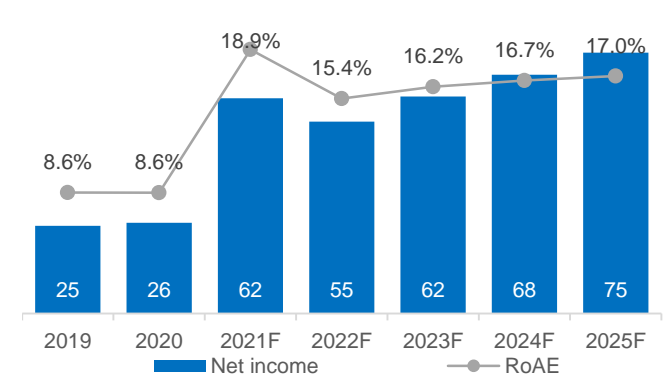
Total provisioning are expected to reach JD 18mn in FY 2021, as the Bank took a one-time impairment in Q2 2021. We expect provisioning to remain elevated in the near term, as the completion of the forbearance period could lead to additional slippages. We expect the cost of risk to decline from 272 bps in FY 2020 to ~102 bps in FY 2025.

Exhibit 33: Provisioning and bottom line

Total Provisions (JD mn) and Cost-to-risk



Net income (JD mn) and RoAE



Source: Company Reports and Mubasher Estimates

RoAE to increase to 17.0% by FY 2025, driven by incremental income from Bank Audi's operations

Strengthening income streams and improving operating efficiency to support net income

Net income is expected to increase by about 24% (CAGR) between FY 2020 and FY 2025 to reach JD 74.6mn. The Bank's income stream will receive support from rate hikes, value added services, and digitization measures. Consequently, we estimate ROAE to increase from 8.6% in FY 2020 to 17.0% in FY 2025.

Q2 2021 result analysis

- The Bank witnessed continued growth in net operating income across all business lines in Q2 2021 with a 33.7% increase vs. Q2 2020
- Net Income reached JD 13.2mn for Q2 2021 vs. JD 8.0mn in Q2 2020, including Audi transaction impact
- Operating expenses increased 51.8% YoY to JD 16.8mn. Cost-to-income deteriorated by ~548 bps YoY in Q2 2021 to reach 45.8%
- Net credit grew by 58.7% YoY to reach JD 1.8bn as of Q2 2021
- Corporate/ SME clients comprised 66.3% of the portfolio as of Q2 2021 (54.9% Corporate, 11.4% SME) vs. 70.1% in Q4 2020, while remaining majority is with retail clients and mortgages
- Customer deposits grew by 51.9% in Q2 2021 including Bank Audi impact, with CASA balances accounting for 34.9% of the total book
- Deposit composition comprised of Retail 57.3%, Institutional 37.8% and Government 4.8% as of Q2 2021

Q2 2021 net profit received a one-time boost from the gains arising from Bank Audi's acquisition (JD 4.9mn)

Macroeconomic Overview

Economic activity in Jordan was lackluster before the pandemic, due to falling investment, eroding competitiveness and challenging regional conditions. Annual real GDP growth, which averaged at 5.1% during 2000-15, dropped to 2.0% during 2016-19 – the lowest plateau in a decade.

Exhibit 34: Jordan macroeconomic profile

	2019	2020	2021F	2022F
GDP Growth %	5.4%	-2.4%	3.4%	4.8%
Inflation	0.7%	0.4%	2.3%	2.0%
Fiscal Deficit (JD in bn)	1.90	2.76	2.46	1.99
Public Debt (JD in bn)	24.65	27.30	29.08	30.40
Fiscal Deficit / GDP	6.3%	9.4%	8.2%	6.5%
Public Debt / GDP	78.0%	88.5%	91.2%	91.0%

Source: IMF

COVID-19 Impact: Till date, Jordan has reported 750,000+ confirmed cases of coronavirus with 9,785 deaths. Jordan's second wave of coronavirus peaked in March 2021 and the country has ever since reported a decline in no. of daily new cases to ~500 per day from ~10,000 during the peak.

The country imposed a nationwide lockdown from March 17 to May 30 last year in a bid to curb the spread of COVID-19, before gradually reopening some sectors. Other areas of the economy remain closed until early 2021. This has had significant economic repercussions, given the country's small and open economy with its high rate of connections to the rest of the world. The Jordanian economy contracted by 2.4% in FY 2020 before growing 5.4% in 2019.

Jordan's unemployment rate, which marginally increased from 18.3% in 2017 to 19% in 2019, rose sharply as a result of the economic shock from the pandemic, to reach 24.7% in Q4-2020. Youth unemployment (15–24 years) jumped significantly from 40.6% in 2019 to an unprecedented high of 50% by the end of Q4-2020. All this, despite the fact that the economic shock on Jordan's GDP was relatively muted compared to its peer countries.

Key Drivers: Jordan's economy is driven by the finance and manufacturing sectors, which together account for 41% of GDP (FY 2020). Tourism, trade and real estate are other key drivers. With very limited natural resources to derive revenues from, Jordan is one of the most committed countries to financial reforms within MENA (privatization, tax reforms, opening of the banking sector) etc.

Outlook: Jordan's economic outlook in 2021 remains contingent upon the evolution of domestic cases along with the pace and scale of vaccination and progress of foundational reforms anchored in the Five-Year Reform Matrix that aim to improve the environment for public and private investment and contribute to job creation and economic growth.

In 2020, the Government of Jordan (GoJ) enacted a series of plans and programs to address the health and socioeconomic impacts of the pandemic. However in March 2021, the GoJ announced a set of COVID stimulus packages and relief measures for citizens and struggling sectors at a total value of JD 448mn.

With increasing money flow in the market and decreasing fiscal deficit, Jordan is expected bounce back to pre-covid levels

Unemployment rate in Jordan had increased significantly to ~25% in Q4 2020 from 19% in FY 2019

S&P affirmed Jordan's credit rating

In March 2021, rating agency S&P affirmed Jordan's sovereign credit rating at 'B+/B' with a 'Stable' outlook, citing the nation's reforms program that is driven by IMF support. The program aims to improve investment environment, competitiveness, widening tax base and eradicating corruption.

The current account deficit is projected to remain elevated in 2021 before narrowing steadily over the medium-term. Tourism receipts are projected to remain modest in 2021 - at around only 40% of 2019 level – before returning to pre-COVID level only by 2023. Despite the challenging economic outlook, it is believed that external assistance from the international donor community, multilateral organizations and bilateral allies will continue underpinning the country's macroeconomic stability, particularly with regard to the stability of its foreign-exchange rate peg regime to the US dollar.

Jordan's credit rating was affirmed at 'B+' by S&P, driven by government's reforms program

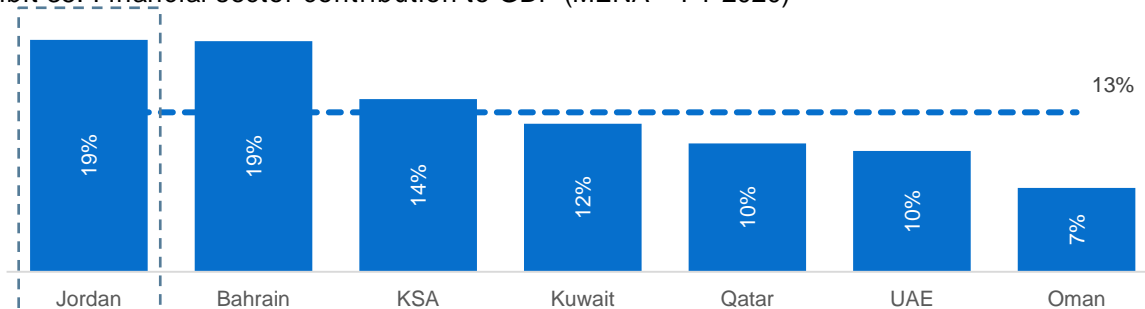
Jordan Banking Sector Overview

Jordan's financial sector contributed 19% to the overall GDP in FY 2020, growing by ~1.5%

Jordan's financial sector defied COVID-19 led headwinds

Jordan's banking sector contributed ~19% to the overall GDP during FY 2020 (vs. ~10% a decade back), which was fairly higher compared to 13% seen in other MENA countries. While there was a contraction in the overall GDP (~2%) due to pandemic, the financial sector grew by 1.5%

Exhibit 35: Financial sector contribution to GDP (MENA – FY 2020)



Source: Statistical authority websites

Central bank initiatives to curb impact of the Covid-19 pandemic

The Central Bank of Jordan, similar to its global counterparts, announced a series of measures to control the impact of the COVID-19 pandemic on the local economy. The measures were primarily targeted towards the vulnerable sections of the economy.

Exhibit 36: Measures from central bank in light of COVID-19 outbreak

Measure	Description
Loan deferrals	<ul style="list-style-type: none"> Allowing banks to postpone the due instalments on the affected companies This has ended in June 2021
Liquidity injection	<ul style="list-style-type: none"> The central bank decided to trim the compulsory reserve ratio on deposits from 7% to 5% This helped pumping JD 550mn worth of liquidity in the banking system
Rate cuts	<ul style="list-style-type: none"> Trimmed interest rates by 100 bps on all monetary policy instruments, and by 75 bps on the overnight deposit window
Reducing financing costs	<ul style="list-style-type: none"> The central bank trimmed the financing costs of its refinancing program for small and medium size projects The rates for existing loans for projects within Amman governorate were cut to 1.0% from 1.75% and 0.5% from 1.0% for projects in other governorates
SME support	<ul style="list-style-type: none"> Launched a soft financing program worth JD 500mn for SMEs within 23 sectors including industrial, trade, agriculture, services, etc The interest rate for this facility was capped at 2% and the repayment grace period was set at one year, with a loan guarantee of 85%

Jordan's central bank introduced rate cuts and announced a credit support program worth JD 500mn for SMEs to curb the COVID effect

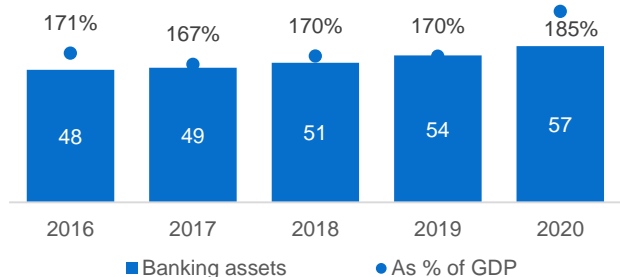
Banking assets in Jordan have grown at a CAGR of 4%, outpacing the economy (2%) between FY 2016 and FY 2020

Growth in Jordan's banking assets have surpassed that in GDP

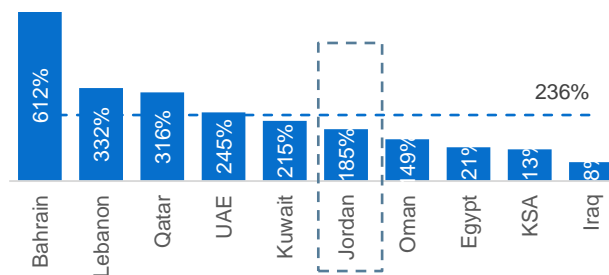
Banking assets in Jordan have grown at a 4% (CAGR) between FY 2016 and 2020 to reach JD 57bn. Total growth in banking assets have surpassed the average GDP growth (~2%) in the country during the period. Banking asset penetration (as a % of GDP) has increased from 171% in 2016 to 185% in 2020. This is fairly lower in comparison to other MENA countries.

Exhibit 37: Banking asset penetration

Jordan banking assets (JD bn) penetration



MENA banking assets penetration – FY 2020



Source: Central banks of countries

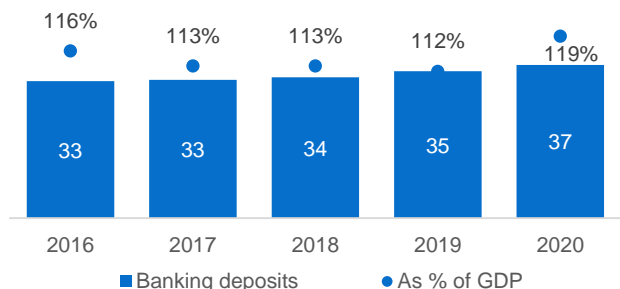
Deposits in Jordan have grown in line with the GDP

Jordan’s banking deposits penetration ratio increased to 119% in FY 2020 compared to 116% in FY 2016

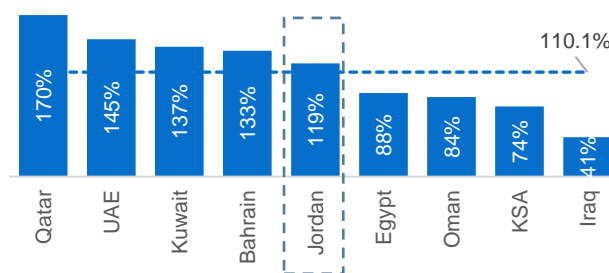
Total banking deposits have grown by ~3% (CAGR) between FY 2016 and FY 2020. Time and savings deposits have increased by ~3% (CAGR) during the period, which helped in offsetting a marginal decline in demand deposits in the system. Deposit to GDP ratio has increased to ~119% at the end of FY 2020 from 116% in FY 2016. The average deposit to GDP ratio in the MENA region stands at 110% at the end of FY 2020, with Qatar having the highest at 170%.

Exhibit 38: Deposit penetration

Jordan banking deposits (JD bn) penetration



MENA banking deposits penetration ratio – FY 2020



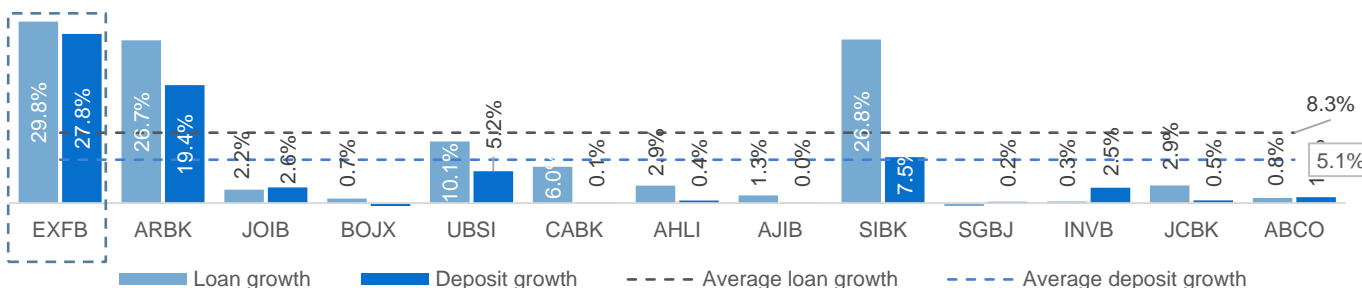
Source: Central banks

EXFB’s loan and deposit growth has outperformed its peers in Q1 2021

Jordan’s banking deposits penetration ratio increased to 119% in FY 2020 compared to 116% in FY 2016

EXFB’s loan (~29% QoQ) and deposit (28% QoQ) growth has increased at the fastest pace in Q1 2021, largely on the back of consolidation of Bank Audi’s Jordanian and Iraqi operations. Arab Bank, the largest commercial bank in Jordan (in terms of loan base), also reported a double-digit growth in its loans (~27% QoQ) and deposits (~19%) during the period. On the other hand, SGBJ (-3% QoQ) reported a drop in its loan book, while BOJX reported a decrease in its total deposits (~1% QoQ).

Exhibit 39: EXFB’s loan and deposit growth topped its sector average – Q1 2021



Source: Company reports, Bloomberg

COVID-19 headwinds could deteriorate the asset quality of the sector

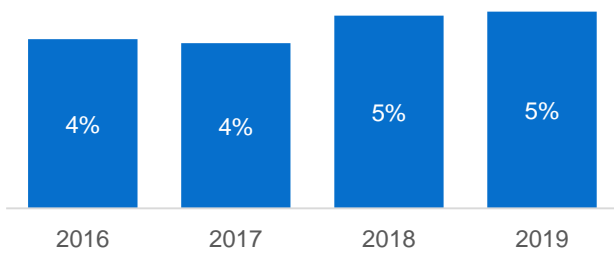
Earnings quality of Jordanian banks might deteriorate temporarily in the near term as the deferral program came to an end in June 2021

Aggregate NPL ratio in Jordan's banking sector saw an improving trend until FY 2019 (5%) However, the outbreak of COVID-19 resulted in a potential increase in FY 2020. Jordan's central bank had announced loan moratorium in March 2020, with a view to offset the impact of the pandemic on domestic businesses.

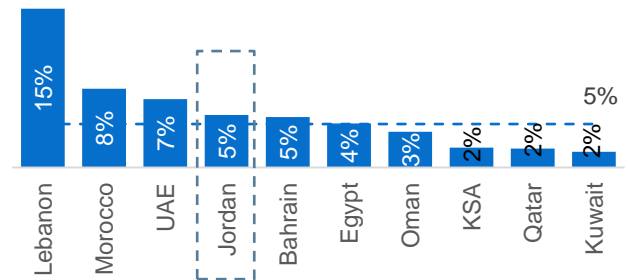
While the central bank had granted deferrals until June 2020, it got extended until June 2021, due to the after effects of the pandemic. Asset quality of Jordanian banks is expected to deteriorate further once the moratorium period comes to end.

Exhibit 40: Asset quality metrics

NPL ratio – Jordan banking sector



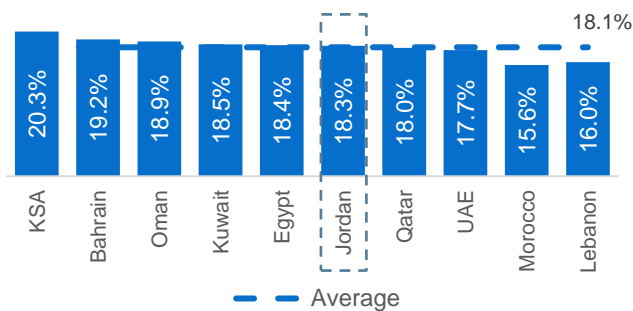
NPL Ratio – MENA banking sector FY 2019



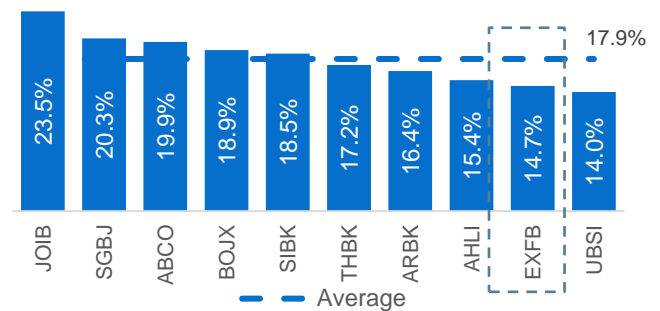
Source: Central Bank of Jordan Financial Stability Report FY 2020

Exhibit 41: Jordanian banks are well capitalized to withstand any sudden shocks

Capital adequacy of MENA banking sector – FY 2019



Capital adequacy of Jordanian banks – Q1 2021



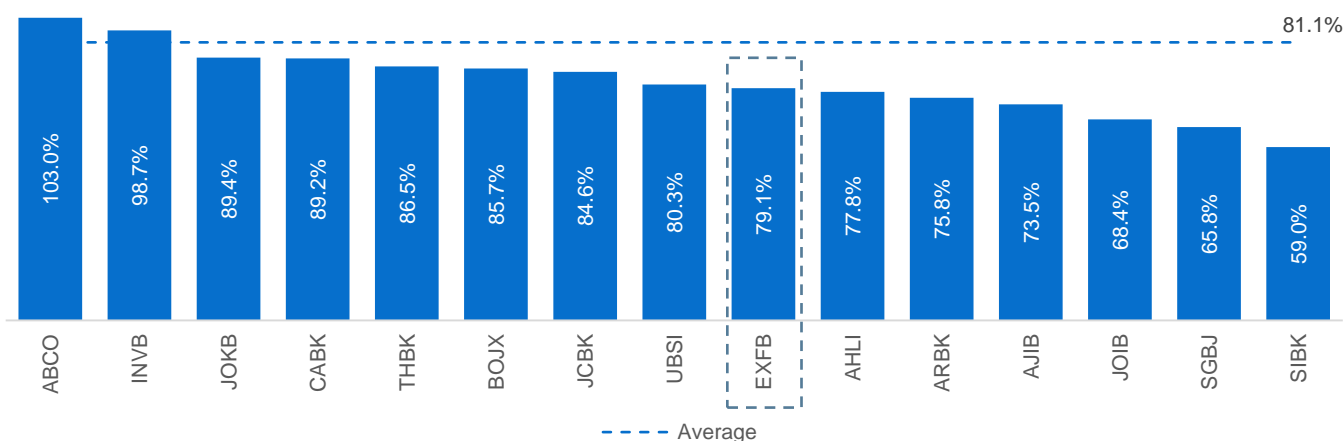
Source: Central Bank of Jordan Financial Stability Report- 2019, Bloomberg

Capital adequacy ratio of Jordanian banks (18.3%) was largely in line with the MENA average (18.1%) in FY 2019

CAR of Jordanian banking sector (18.3% in FY 2019) stands considerably above the Central Bank of Jordan's (12.0%) and Basel III (10.5%) minimum requirements. The average CAR of banking sectors of major MENA economies stood at 18.1%. Thus, capital adequacy levels of Jordan's banking sector is largely in line with the regional average. Among the individual banks within Jordan, EXFB's CAR stood at 14.7% at the end of Q1 2021. This was fairly lower compared to the average CAR ratio of 17.9% in the domestic banking sectors.

Funding and Liquidity Strength

Exhibit 42: Jordanian banks are fairly liquid – Q1 2021



Source: Company reports, Bloomberg

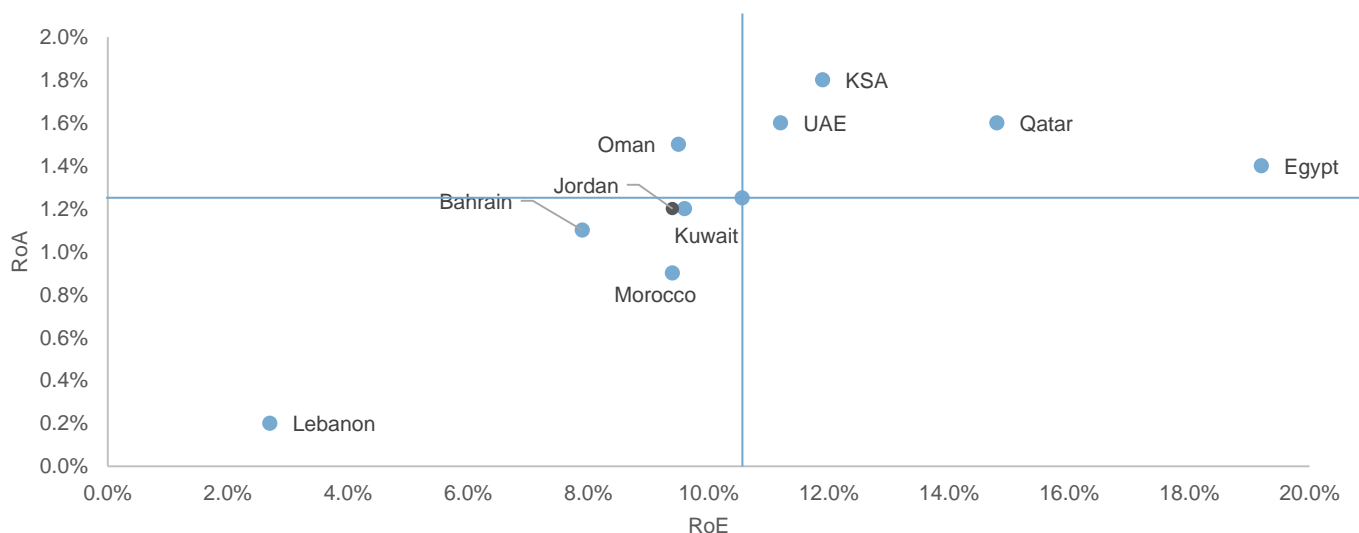
Profitability of Jordanian banks lags its MENA peers, on account of tax regimes in place

High capital base and tax regimes leads to lower profitability of Jordanian banks

Return on equity (9.4%) and return on asset (1.2%) of Jordanian banks remained fairly lower compared to its other MENA / GCC peers. The lower profitability can be largely attributed to high levels of capital held by domestic banks and the relatively high rates of taxes paid by banks in Jordan compared to favorable / low tax regime in regional economies such as Qatar, UAE and Kuwait.

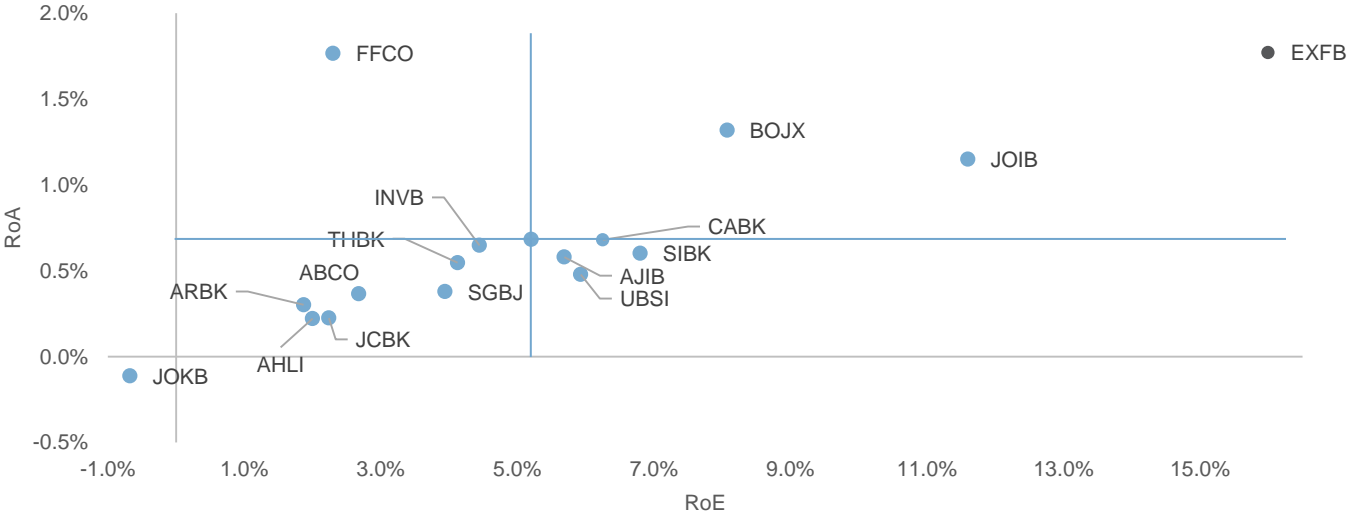
In terms of individual banks, EXFB reported the largest RoE and RoA during Q1 2021, compared to other domestic banks. Gains arising from the acquisition of Bank Audi's Jordanian and Iraqi operations provided a one-time boost to the profitability during the period. JOKB was the only bank which reported losses during the period.

Exhibit 43: MENA banking sector profitability metrics – FY 2019



Source: Company reports, Bloomberg

Exhibit 44: EXFB reported the highest RoE and RoA among Jordanian banks – Q1 2021



Source: Company reports, Bloomberg

Annexures

Income Statement (JD mn)	2019	2020	2021F	2022F	2023F	2024F	2025F
Interest Income	115	130	175	215	250	278	302
Interest Expense	(60)	(61)	(85)	(107)	(132)	(151)	(165)
Net Interest Income	55	69	90	108	118	128	137
Fees Income	25	24	30	36	39	42	45
Non-Interest Income	14	17	7	8	9	10	10
Total operating income	94	111	127	152	167	179	192
Total expenses	(48)	(47)	(56)	(66)	(72)	(77)	(82)
Pre Provision Profit	46	64	70	86	95	103	110
Loan loss charges	(7)	(25)	(18)	(16)	(16)	(15)	(15)
Profit Before Tax	37	38	79	70	79	87	95
Income Taxes	(8)	(8)	(12)	(11)	(12)	(13)	(14)
Profit After Tax	29	30	67	60	67	74	81
Minority Interest	(4)	(4)	(5)	(5)	(5)	(6)	(6)
Net Income	25	26	62	55	62	68	75
EPS (JD)	0.13	0.13	0.31	0.27	0.31	0.34	0.37

Source: Company reports, Mubasher estimates

Balance Sheet (JD mn)	2019	2020	2021F	2022F	2023F	2024F	2025F
Cash & Cash Equivalent	205	296	423	601	786	793	795
Interbank lending	98	143	213	238	268	281	295
Investments	547	653	978	1,093	1,228	1,290	1,355
Net loans	1,092	1,415	2,042	2,158	2,314	2,470	2,640
Intangible assets	3	11	10	9	9	9	9
Fixed Assets	29	35	37	40	43	46	50
Other Assets	144	143	215	227	243	259	277
Total Assets	2,186	2,749	3,970	4,416	4,940	5,199	5,470
Customer deposits	1,306	1,674	2,504	2,800	3,149	3,309	3,475
Margin Accounts	169	152	287	320	361	379	398
Interbank borrowing	114	138	206	231	260	273	287
Loans and borrowings	165	330	450	503	566	595	625
Other Liabilities	35	51	77	86	96	101	106
Total Liabilities	1,839	2,393	3,572	3,988	4,481	4,705	4,939
Share capital	200	200	200	200	200	200	200
Statutory reserve	41	44	50	56	62	69	76
Retained earnings	55	78	109	129	149	170	193
Other	(4)	(13)	(13)	(13)	(13)	(13)	(13)
Minority Interest	54	48	54	58	64	70	76
Total Equity	347	356	399	428	460	494	531
Total Equity & Liabilities	2,186	2,749	3,970	4,416	4,940	5,199	5,470
BPS (JD)	1.47	1.54	1.72	1.85	1.98	2.12	2.27

Source: Company reports, Mubasher estimates

Cash Flow Statement (JD in Mn)	2019	2020	2021F	2022F	2023F	2024F	2025F
Profit before tax	37	38	79	70	79	87	95
Depreciation and amortization	6	6	8	8	8	8	9
Impairment losses	7	25	62	16	16	15	15
Other income/expenses	5	(9)	0	0	0	0	0
Net operating profit before changes in operating assets and liabilities	56	60	149	94	103	111	119
Restricted balances at central banks	13	4	-	-	-	-	-
Direct credit facilities at amortized cost	(209)	(328)	(697)	(119)	(157)	(166)	(177)
Banks and financial institutions' deposits	5	(5)	(71)	(25)	(30)	(13)	(14)
Other assets	(28)	7	(72)	(11)	(16)	(17)	(18)
Customers' deposits	58	347	830	295	350	159	166
Margin accounts	25	(17)	135	34	40	18	19
Other liabilities	7	11	25	9	11	5	5
Cash from (used in) operating activities	(76)	77	376	289	316	105	107
Income tax paid	(7)	(10)	(12)	(11)	(12)	(13)	(14)
Cash flow from operating activities	(84)	67	364	279	304	91	93
Net Purchase of Property & Eqp.	(4)	(11)	(5)	(6)	(7)	(8)	(8)
Net Purchase of intangible assets	(11)	(10)	(3)	(3)	(4)	(4)	(4)
Net Purchase of financial assets at amortized cost	(76)	(55)	(280)	(99)	(117)	(53)	(56)
Net Purchase of Financial Assets	-	-	-	-	-	-	-
Cash flow from investing activities	(15)	(108)	(333)	(124)	(146)	(73)	(77)
Repayment of loans and borrowings	83	283	120	53	63	29	30
Proceeds from loans and borrowings	(42)	(120)	-	-	-	-	-
Treasury Shares	-	(4)	-	-	-	-	-
Cash Dividends	(20)	-	(24)	(30)	(36)	(40)	(44)
Cash flow from financing activities	32	159	96	23	27	(11)	(14)
Net change in cash balances	(67)	118	127	178	185	7	2

Source: Company reports, Mubasher estimates

Key Ratios	2019	2020	2021F	2022F	2023F	2024F	2025F
Asset Quality							
NPL Ratio	7.1%	5.0%	6.3%	6.6%	6.6%	6.6%	6.6%
NPL Coverage	61.5%	96.5%	97.7%	99.1%	102.4%	104.9%	106.3%
Provisions/ Avg. Loans	2.1%	2.7%	1.5%	1.3%	1.2%	1.1%	1.0%
Margins							
Asset Yields	6.8%	6.5%	6.3%	6.3%	6.8%	7.0%	7.2%
Funding Cost	3.6%	3.0%	2.9%	2.9%	3.2%	3.4%	3.5%
NIM	3.3%	3.4%	3.3%	3.2%	3.2%	3.2%	3.3%
Capital Adequacy (%)							
Tier 1 Ratio	16.4%	14.5%	14.2%	14.0%	13.7%	13.7%	13.6%
CAR	18.4%	16.3%	15.6%	15.4%	15.0%	14.9%	14.7%
Total RWA (JD mn)	1,630	1,826	2,192	2,349	2,544	2,704	2,899
Liquidity Ratios (%)							
Customer Deposits to Equity	4.4	5.4	7.3	7.6	8.0	7.8	7.6
Loans to Deposit	75.3%	77.8%	77.4%	72.9%	69.3%	70.5%	71.8%
Loans/Assets	49.9%	51.5%	51.4%	48.9%	46.8%	47.5%	48.3%
Income statement ratio %							
Fees Income/ Total Income	26.7%	22.1%	23.7%	23.7%	23.7%	23.6%	23.4%
Cost to Income Ratio	50.9%	42.3%	44.6%	43.5%	43.0%	42.8%	42.7%

Source: Company reports, Mubasher estimates

Historical Timeline of Capital bank of Jordan

Year	Key Development
1995	<ul style="list-style-type: none"> Established in 1995 as Export and Finance bank with an authorized capital of JD 20mn (\$28.2mn)
2005	<ul style="list-style-type: none"> Acquired National Bank of Iraq to become the controlling shareholder with 61.85% stake
2006	<ul style="list-style-type: none"> Established Capital Investments, a fully-owned investment banking subsidiary offering asset management to capital raising and advisory services
2007	<ul style="list-style-type: none"> IFC made a \$30mn investment for a 7% equity stake to help Capital bank provide Jordanians better access to housing and business finance
2009	<ul style="list-style-type: none"> Partnered with Temenos , a global integrated core banking systems provider to expand in to retail banking Capital Investments managed and arranged the first Islamic Sukuk issuance in Jordan
2011	<ul style="list-style-type: none"> National Bank of Iraq on-boarded Cairo Amman Bank, PaITel, Foursan Group as strategic partners via sale of minority stake
2014	<ul style="list-style-type: none"> Launched national electronic billing and payment system in partnership with eFAWATEERcom, a system allowing people to pay bills from computers, ATMs and POS terminals
2015	<ul style="list-style-type: none"> Capital Investments (DIFC) established in UAE to expand Capital Bank's consulting and advisory services in the GCC region
2019	<ul style="list-style-type: none"> Entered into a strategic partnership agreement with Backbase to drive digital transformation Formed multiple strategic partnership with <ul style="list-style-type: none"> Partnered with Oopensooq, an Arab online platform to market and promote its corporate clients product and services online
2020	<ul style="list-style-type: none"> Liwwa to automate SME loan applications and other digital and electronic services Equiti group for FX and commodity trading in Jordan and Iraq Zain and Asia Cell in Iraq for e-wallets and POS cash services
2021	<ul style="list-style-type: none"> Acquired Bank Audi's banking business in Jordan and Iraq The Capital group has entered into a partnership with Codebase Technologies to launch a new neobank / digital bank in Jordan and Iraq

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Investment Ratings Guide

Overweight	The target price for the next 12 months is 15% above the current price
Neutral	The target price in the next 12 months is between -15% and 15% of the current price
Underweight	The target price for the next 12 months is 15% below the current price
Not Rated	No investment rating has been assigned yet

