

CMP/FEB/2020/0024

14th February 2020

Mr. Hassan Al Serkal

EVP, COO – Head of Operations Division, Market Operations Division

Dubai Financial Market

P.O Box 9700

Dubai - United Arab Emirates

Dear Mr. Al Serkal,

Subject: Results of GFH Financial Group's Webcast for 2019 Year End Financials

Further to GFH's market notification dated 11th February 2020 on the subject, GFH is pleased to inform its shareholders and the markets about the successful live webcast session which was broadcasted online, Thursday, 13th February 2020, at 2 p.m. Kingdom of Bahrain time.

Attached herein is the presentation discussed during the session and the transcript of the live webcast.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'Mariam Jowhary', written over a light blue circular stamp.

Mariam Jowhary

Head of Compliance & AML



GFH Financial Group Year 2019 Financial Performance

Presentation to Investors and Analysts

13 February 2020



Importance Notice and Forward-Looking Statements



Important notice

The information set out in this presentation and subsequent webcast does not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any recommendation in respect of such securities or instruments.

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Highlights of Financial Performance



- Operating income for the year 2019 grew by 17% to USD 335.7m from USD 286.2m for the previous year. *The highlight of the operating income for 2019 has been the improvement in quality of income.*
- Shareholders profit for the year 2019 of USD 80.1m compared to USD 114.1m in 2018, a decrease of 30%. Consolidated profit of USD 67.2m for the year 2019 compared to USD 115m in 2018, a decrease of 41.6% mainly due to KHCB provision.
- Shareholders profit for Q4 2019 of USD 6.5m compared to USD 10.6m in 2018, a decrease of 39%. Consolidated loss of USD 3.1m for Q4 2019 compared to consolidated profit of USD 10.4m in 2018.
- Operating expenses, including finance expenses has increased from USD 157m for the year 2018 to USD 213.7m in 2019, an increase of 36%. Finance expenses has increased due to the increase in the money market funds received during the year.
- Provision for impairment increased 3 fold from USD 17.6m in 2018 to USD 54.3m for 2019 and is from KHCB. KHCB has taken provisions on its credit and investment book during 2019 which is expected to improve their performance going forward.

	YE 2019	YE 2018
EBITDA margin	53.2%	54.0%
Net Profit margin	20.0%	40.2%
Return on Equity	7.8%	10.3%
Return on Assets	1.5%	2.5%
Capital Adequacy Ratio	13.9%	16.5%
Liquidity Coverage Ratio	180%	103%
Net Stable Funding Ratio	101%	101%
Leverage Ratio (Basel III)	17.9%	22.4%



Highlights of Financial Performance



- Total assets of the Group increased from USD 4.99bn in 2018 to USD 5.9bn in 2019, an increase of 19%. The primary reason for the increase is receipt of money market funds which has been deployed in liquid assets consequently increasing liquid assets from USD 1.1bn in 2018 to USD 1.9bn at 2019 year end, an increase of 72%. Liquid assets yielded an average of 12.9% for the year 2019.
- Total liabilities of the Group has increased 28% from USD 2.67bn in 2018 to USD 3.43bn in 2019. The primary reason for the increase is receipt of money market funds which has increased 50% from USD 1.63bn in 2018 to USD 2.45bn in 2019. Money market funds had an average cost of funds for the year of 4.84%.
- Equity attributable to shareholders decreased from USD 1.06bn at end of 2018 to USD 1bn at end of 2019, a decrease of 5.7%. The decrease in equity is attributable to the dividend paid out for 2018, treasury shares purchased during the year as part of market making and acquisition of additional stake in Tunis project.
- Capital adequacy ratio (with dispensation) has dropped from 16.5% at end of 2018 to 13.5% at end of 2019 primarily due to reduction in equity balance and additional investment in real estate projects/entities.
- Market capitalization of GFH as of 31 December 2019 was USD 842m compared to USD 904m at 31 December 2018.

	YE 2019	YE 2018
EPS	2.37	3.22
Book value per share	1.00	1.06
Price to Book ratio	0.84	0.85
Market capitalisation	US\$842m	US\$904m
Net Debt to Equity Ratio	0.77x	0.68x
Dividend Yield (to Par)	5.57%	8.71%



Income statement

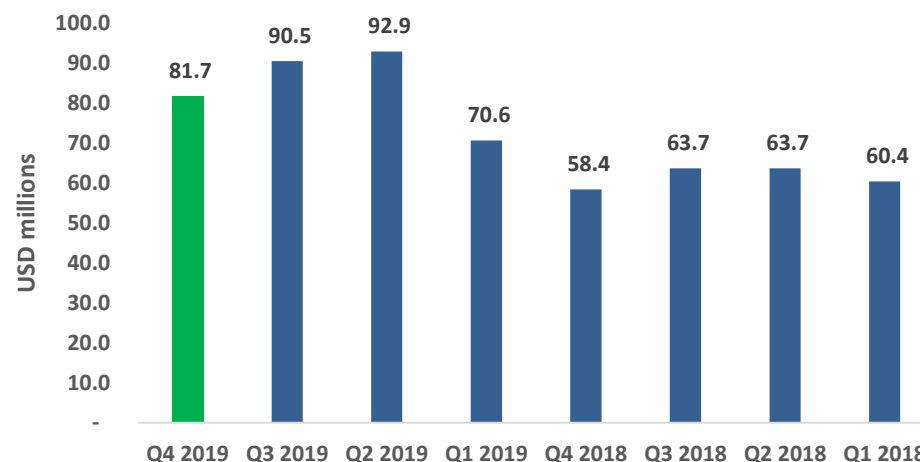
Compared to 2018, the quality of income for 2019 has improved substantially with 71% of the profit being cash profit compared to 2018 which did not have significant cash income.

Investment Banking - GFH placed 5 deals during the year generating an income of USD 93m, which is 132% increase compared to the previous year. The primary income was from the Education platform which was launched during 2019. The Bank was also successful in exiting investors of US \$ 100 mn.

Real Estate – Significant completion in the development projects along with improved sales in the projects ensured an income of USD 30.3m. During the year, one of the subsidiaries of the Bank, commenced the handover of the apartments and recognized income of USD 7.5m from the same. During the year, the Bank was also successful in partially exiting the investment in a Bahrain based hotel at a gain of USD 29.4m.

Treasury – Treasury business has seen a marked improvement during the year with money market funds continuing to be received. Compared to the previous year, the Bank has reduced its negative spread significantly and the last 2 quarters of 2019 has seen the spread being positive. Increase in the finance expenses by 181.8% due to the increased deposits taken by the Bank in 2019.

Total Revenues



Commercial Banking - KHCB has endured a challenging business environment, wherein it has continued to remain profitable operationally, but has reported a net loss due to the higher provisions in its corporate and investment books.

Operating expenses - Operating expenses were lower than the budget for the year both at GFH and commercial bank level.


Impairment provisions for the year were higher than the previous year primarily due to provisions at commercial bank.

Statement of financial position



	USD 000s				
	Dec 2019	Sep 2019	Jun 2019	Mar 2019	YE 2018
Cash and bank balances	362.3	401.9	369.6	541.9	341.6
Treasury portfolio	1,588.6	1,655.8	1,682.4	1,477.2	818.0
Financing assets	1,272.7	1,316.7	1,300.2	1,272.6	1,208.9
Real estate investment	1,806.0	1,815.8	1,821.4	1,824.9	1,840.0
Proprietary investment	268.2	276.5	279.0	271.3	234.0
Co-Investments	96.5	74.4	77.0	77.6	77.6
Assets held-for-sale	101.2	101.2	101.2	147.1	147.1
Receivables & prepayments	424.4	471.4	482.3	269.5	229.1
Property and equipment	25.4	24.6	24.7	24.1	92.9
Total Assets	5,945.3	6,138.3	6,138.0	5,906.2	4,989.2
Clients' funds	70.9	74.5	61.1	41.0	46.6
Placements from FI & non-FI	2,447.3	2,675.4	2,790.0	2,598.1	1,628.4
Customer current accounts	147.5	169.4	163.7	161.5	177.9
Term financing	279.4	268.0	200.0	238.2	256.2
Liabilities associated with assets held for sale	39.9	39.9	39.9	42.7	42.7
Payables and accruals	448.9	526.9	507.9	468.3	517.9
Total Liabilities	3,433.9	3,754.1	3,762.4	3,549.9	2,669.7
EIAH	1,218.6	971.5	995.8	947.2	896.9
Total Equity attributable to shareholders of Bank	1,004.5	1,072.5	1,036.8	1,048.4	1058.8
Non-controlling interest	288.3	340.2	343.0	360.8	364.0
Total Liability, EIAH & Equity	5,945.3	6,138.3	6,138.0	5,906.2	4,989.2





Thank you
Q & A





GFH Financial Group Reports Year End 2019 Financial Results

Attendees from GFH Financial Group:

- **Mr. Surya Hariharan (Head of Financial Control)**

Good afternoon to all. I, Surya Hariharan, Head of Financial Control, on behalf of the GFH management team welcome you to GFH Financial Group's financial results presentation for the year 2019. Along with me today on the call is Mr. Hisham Alrayes, the Group CEO of GFH Financial Group and senior members of the management team.

We are pleased to present to you the Group's financial results for the year 2019, which have marked another year of profitability and contributions from across business lines. The highlight of this year's performance has been the cash nature of business income which is a testament to the strategic direction in which the Group is moving. This is also the 20th year of the organisation and we would like to, at the outset, thank all the stakeholders who have continued to support our organisation through the different phases.

The Management has successfully delivered on the goals set out in the beginning of the year which was to have cash and realised income from all its core business lines.

Let me start the session with the key performance highlights from the income statement for the year 2019.

- Total operating income of the Group was US\$335.7m for the year 2019 compared to US\$286.2m, an increase of 17.3%. This increase is primarily driven by the increased contribution from Investment banking, Treasury, and Real Estate business lines.
- Total operating expenses of the Group was US\$102.4m for the year ended 31 December 2019 compared to US\$117.5m for the comparative year, a decrease of 12.9%.
- Finance expenses of the Group increased from US\$39.5m for the year 2018 to US\$111.3m for the year 2019. Growing investor confidence led to higher inflows of money market funds during the year helping us build one of our emerging business line, Treasury operations.
- Net profit attributable to the shareholders of the Bank for the year 2019 was US\$ 80.1m compared to US\$114.1m for the year 2018, a decrease of 29.8%. The decrease in net profits is attributed to lower contribution from the Group's commercial banking arm due to higher impairment provisions at the commercial bank during the year. Excluding KHCB performance, GFH recorded net profit attributable to shareholders of USD 107m
- Impairment provisions for the Group stood at US\$54.3m for the year 2019 compared to US\$17.6m for the year 2018, primarily from the commercial banking subsidiary of the Group. We believe that with these provisions at KHCB level, the Bank is poised for better performance in the coming years contributing positively to the Group's net profit.
- Earnings per share decreased for the year 2019 to 2.37 US cents from prior year of 3.22 US cents in line with the earnings.

On the balance sheet, the key highlights were as follows:

- Total assets of the Group have increased to \$5.9bn at 31 December 2019 from \$4.9bn at 2018 year end, primarily on account of increase in liquid assets of the Bank.
- Total liabilities of the Group have increased to \$3.4bn at 31 December 2019 from \$2.7bn at 2018 year end, primarily due to the increase in the money market funds raised by the Bank. Money market funds raised by the Bank at 31 December 2019 is \$1.8bn compared to \$1.0bn at 31 December 2018. The growing deposit base has resulted in a leverage ratio of 2.71x and a net leverage ratio of 0.77x.
- Equity attributable to shareholders of the Bank was \$1.00bn at 31 December 2019 compared to \$1.06bn at 2018 year end.

Most business lines across the Group have delivered strong performances during the year 2019, with further details on the major developments achieved within each business line to follow:

- Investment banking contributed 28.6% to the total income of the Group mainly from placement activities in the Education platform and a US based real estate projects.
- The Group's strategy for its Treasury business line has shown significant improvement with Treasury contributing to 22.6% of the total income through investments in Sukuks and structured products
- Solid performance from the proprietary investments held by the Bank as the business line generated 12.5% of the total income
- Real estate contributed 12.0% of the total income for the year 2019, primarily from sale of development units in Bahrain
- Commercial banking revenues reflected growth compared to the previous year, however the contributions were low due to provisions taken on their investments and credit book.

GFH's results for the year 2019, which translate into an annualised return on equity of 7.8%.

Considering the financial performance of the Group, the Board of Directors have recommended a cash dividend of 5.57% on the par value of the shares amounting to USD 50 million, subject to approval from the shareholders.

Our efforts towards realizing our strategy have strengthened market confidence in the Group, whose ratings were affirmed by Fitch Ratings, who maintained the Group's "B" rating with a stable outlook, along with S&P Global Ratings who assigned the Group a 'B' long-term issuer credit rating with a stable outlook. We believe that we are well positioned and in the cusp of growth across business lines. We strive to ensure that our strong performance deliver good returns for our shareholders consistently and once again thank the enormous trust imposed by our shareholders over these last 2 decades.

I would like to thank you for your time this afternoon and open the floor for any questions you might have.

Questions and Answers:

Q1:

Hi, Can you provide more information on the provisions at commercial banking and if we should see improvement going forward?

A1:

This was one off and the provisions were taken against the loan book and legacy investments. We expect the performance of the Bank to improve significantly going forward.

Q2:

Was the increase in provisions expected as it seems to be a big increase from 2018?

A2:

This was anticipated and one off nature. It is in line with the regulator and market expectations.

Q3:

When do you expected to be listed on the Saudi Stock Exchange?

A3:

We are in the process and we will inform the markets about the update.