



CMP/FEB/2019/0017

12th February 2019

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 Webcast for the Financials of the Year Ended 31st December 2018

Further to GFH's market notification dated 7th February 2019 inviting its shareholders and investors to the Webcast for the year end financials, GFH is pleased to announce the success of the live webcast session which was broadcasted online today, Tuesday 12th February 2019, at 2 p.m. Kingdom of Bahrain time.

Attached herein in the transcript of the live Webcast, and the presentation discussed during the session is available at GFH's website at the below link:

<https://www.gfh.com/wp-content/uploads/GFH-Q4-2018-Financial-Results-Presentation-vF.pdf>

Yours Sincerely,

A handwritten signature in blue ink, appearing to read "Nabeel Mirza", enclosed within a blue oval scribble.

Nabeel Mirza

Senior Director Compliance & MLRO



GFH Webcast on 2018 Financial Results

Attendees from GFH Financial Group:

- **Mr. Suryanarayanan Hariharan (Acting Head of Financial Control)**

Good afternoon ladies and gentlemen and welcome to GFH Financial Group's financial results presentation for the year ended December 2018. My name is Suryanarayanan Hariharan, Acting Head of Financial Control, and I am joined today by Mr. Hisham Alrayes, our Chief Executive Officer along with Mr. Hazim Abdulkarim, our Head of Corporate Communications and Government Relations as well as other members of GFH's management team.

We are pleased to present to you the Group's financial results for the fiscal year ended 31 December 2018, which have marked another period of enhanced profitability and strengthened performance across the Group and its subsidiaries.

2018 marks the fourth consecutive year that GFH has made solid gains across the top and bottom line, an achievement made all the more gratifying against the backdrop of challenging market conditions that have impacted the MENA region and other global markets where we have historically invested and continue to pursue value creation and growth.

The Group demonstrated ability to deliver steady and sustained financial and operational improvements that have been instrumental in solidifying trust in GFH and its position as one of the foremost financial groups in the region.

At the center of this continued progress has been a highly successful transformation that has seen GFH develop into what is today a fully-fledged financial group with a sound financial base and a well-diversified model that has established strong revenue generating business lines active in Commercial and Investment Banking, Real Estate and Asset Management. Our diversification has also focused on ensuring the ability to effectively take advantage of opportunities across diverse assets classes as well as sectors and regions with high potential. This includes our home markets of the GCC as well as North Africa, India, Europe and US.

In line with our strategy and objectives, during 2018, the focus of our efforts were three-fold. They included the continued deployment of the Group's knowledge, talent and track record to identify and close promising new income yielding investments, to further build and extract value from our existing assets and to secure timely and profitable exits in support of our primary goal, which remains delivering superior returns to our investors and shareholders.

Our successful execution across all of these areas underpins our strong results for 2018. For the year, the Group reported consolidated net profit of \$115 million as compared with \$103 million from the previous year, an increase of 11.4%, and a net profit attributable to shareholders of \$114 million compared with \$104 million for the previous year, an increase of 9.5%.

Net profit attributable to shareholders for the fourth quarter of 2018 was \$10.7 million versus \$17.0 million in the fourth quarter of 2017, a decrease of 37.1%. Consolidated net profit for the fourth quarter of 2018 was \$10.3 million compared with \$12.2 million in the fourth quarter of 2017, a decrease of 15.1%.

Total equity attributable to shareholders in 2018 was \$1.06 billion as compared to \$1.15 billion in 2017, a decrease of 7.9% due to share buyback by the Group.



The Group's total consolidated revenue was \$250 million compared with \$212 million in 2017, reflecting a healthy year-on-year increase of 18.0%. Growth resulted from a successfully diversified business model and solid contributions across its investment and commercial banking, real estate and asset management business lines in addition to increases in other income generated through strategic initiatives undertaken by the Group. Importantly, GFH also continued to deliver on its strategy of achieving profitable exits.

Total assets for the year grew from \$4.11 billion in 2017 to \$4.99 billion in 2018. Enhancements to the balance sheet were again achieved in 2018 and the Group's liability profile was optimised. During the year, GFH repaid the entire amount of a \$200 million Sukuk, which was originally drawn in 2007, and achieved early payment of a Wakala facility. Also of note during the year, GFH took active steps to support its share price and market capitalisation, acquiring treasury shares up to 7% of the Group's total issued shares.

GFH's 2018 results, which translate into a return on equity of 10.8% for 2018 compared to 9.1% during 2017, are a testament to the enduring success of the strategy adopted by the Group and this strategy will continue to drive our future performance.

The Group's cost to income ratio for the year ended December 2018 stood at 47%, a minor increase over 2017 levels of 43%. This has been partly driven by deposits raised during 2018 of roughly \$700 million, which underscores the trust that the market and clients are placing in GFH's creditworthiness. The growing deposit base has resulted in a leverage ratio of 1.19x and a net leverage ratio of 0.71x.

Earnings per share slightly decreased during 2018 to 3.2 US cents from 2017 levels of 3.6 US cents due to an overall increase in weighted average shares outstanding.

The Group also has a strong cash and liquid assets position of approximately \$630 million as of December 2018. Our capital adequacy is a robust 16.5% compared to a minimum regulatory requirement of 12%, which provides GFH with the opportunity to grow its businesses further.

Finally, and in line with these excellent results and the Group's progressive dividend policy, we are happy to announce the Board's recommendation for the distribution of \$85 million dividend distribution, translating into 8.7% return on paid up capital to shareholders, which is subject to approval of the shareholders.

As we move forward and execute our strategy, we plan to maintain a healthy dividend payments for our shareholders.

Most business lines across the Group have delivered strong performances during 2018, with further details on the major developments achieved within each division to follow.

In the investment banking business, GFH recorded strong investment banking income levels of \$77.0 million during 2018.

This income has been primarily driven by the Group's role in launching new investment opportunities and placing them during the year, including our landmark investment in the UAE-based Entertainer. The Entertainer is the region's leading incentives provider and lifestyle app with total turnover exceeding AED 130mn and a year on year growth rate of above 30%.



GFH's other investments during 2018, including the Chicago and Diversified US office portfolios, are anticipated to generate favourable returns to investors averaging an annual cash on cash yield of 9% and IRR of 12%.

During the fourth quarter of 2018, GFH also acquired Westside Office Business Park in Hemel Hempstead. Located just north of London and off the M25, the ring road around greater London, in a prime office market, the complex comprises four Class A office buildings with approximately 200,000 sq. ft. of contemporary office space set along the Grand Union Canal with abundance of on-site parking and excellent connection to Central London via both rail and road. Upon acquisition, the property was 96% occupied by a well-diversified, credit-rated tenant base ranging across various industries.

The Group also delivered an exit in our Private Equity portfolio for investors in the Philadelphia Private School. This demonstrates our strong track record of not only investing but also exiting our investments.

Furthermore, investment banking income includes net income from investment securities during 2018 of \$33.7 million. Primarily, this relates to income from the Group's treasury activities, which are expected to be a key driver of profitability in the future.

During 2018, the Group was able to raise \$205 million in equity from investors across 4 landmark transactions with a total transaction value of \$540 million as well as exiting 3 assets during the year. Total assets and funds under management as of December 2018 stood at \$6.7 billion.

Among the strongest measures of market confidence in GFH today and over the past year was the raising of more than \$1 billion through our investment products and treasury and capital markets during 2018, which fuels further growth and investment for GFH in 2019.

We expect this strong core operational performance across Investment Banking to continue, enabling the Group to deliver strong results going forward for the benefit of shareholders and investors. We have an exciting pipeline of both regional and international transactions, which will be presented to our investors during 2019.

GFH plans to establish dedicated healthcare and education platforms in 2019 allowing the Group to better capture and leverage opportunities in these segments

Moving on, GFH's real estate activities continued to advance key landmark projects across the GCC, MENA region and India in 2018.

Looking at the Group's Bahrain projects, the Harbour Row project located in the Bahrain Financial Harbour, has made significant progress this year. Onsite works reached approximately 60% completion and the first phase of sales saw more than 50% of total offered residential stock sold.

Based upon percentage of completion, the Group has realized income of \$5.9 million during 2018 for the Harbour Row project, and expects further income in 2019.

During 2018, the Group also agreed to settle Villamar's Sukuk liability of \$200 million at a lower amount, resulting in a gain of approximately \$78 million.

The Group also successfully exited from the Lost Paradise of Dilmun Waterpark in a deal valued at \$60 million whilst retaining the rights to operate and manage the waterpark over the next 5 years. The waterpark is the largest standalone waterpark in the Middle East, accommodating over 5,500 people.



Further highlights for 2018 include the Group reaching a cash settlement with regards to one of its legal claims for an amount of \$22.5 million during Q2 2018., as well as realizing income of \$35 million in Q1 2018 related to the restructuring of liabilities of a subsidiary.

The Group today is widely considered to have one of the most lucrative privately owned land banks with more than 200 million square feet across the GCC, Africa and Asia with a gross development value of \$20 billion.

GFH Properties, which was launched in 2016 as the dedicated real estate development arm of the Group, has completed total sales across the iconic Harbour Row project of \$60 million (145 units), with a total number of units under development of 500.

The Group also owns one of the Kingdom of Bahrain's most prime hotels (Al Areen Hotel), which has the largest spa in the GCC region of over 10,000 square meters.

In Commercial Banking, our subsidiary Khaleeji Commercial Bank continued its record of profitability even when faced with significant headwinds and a conservative provisioning policy, reporting total net income to shareholders of \$1.7 million versus \$5.2 million during 2017.

Financing assets remained flat compared to December 2017 to reach USD 1.2 billion. Similarly, customer deposits remained stable compared to December 2017 at USD 1.5 billion, resulting in an improved loan / deposit ratio of 78% in December 2018 compared to 93% in December 2017.

Despite the lower profitability, KHCB has maintained a strong capital adequacy ratio of 15.9% at the end of 2017. The bank's capital will enable it to continue implementing its future growth strategy to grow organically.

Moving on to shareholder returns. We are better positioned than ever to continue to invest, grow and deliver further shareholder value across the Group and this is demonstrated by the fact that GFH has returned \$265 million in cash to shareholders by way of paying dividends and share buybacks in the last three years.

To conclude, 2018 have been a challenging period, however GFH has shown growth in profits and increased cash flows from operational activities and the asset monetization program. GFH's strategy of moving to a group structure with various business lines is also showing progress. Our commercial banking business, which has historically performed well for the Group, underperformed during 2018; however this was more than compensated by the growth in our Investment Banking and Real Estate businesses.

Having entered 2019 in a solid position, we look forward to strong future results, improved profitability and returns for our shareholders. We expect all of our business lines to continue their strong performance; with investment banking closing and placing further unique investment transactions for our investors, the real estate business expecting to realize further cash flows and profitability for the Group, and the Commercial banking business looking to improve on its operating profitability.

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



Question: What is the latest regarding the announced sale of the real estate assets portfolio? When is this expected to complete? How are the proceeds expected to be deployed and what is the valuation of the real estate assets?

Answer: We will be announcing today an exit of \$100 million of real estate assets. As explained previously, the real estate asset monetization program is envisaged to be conducted as part of a series of consecutive program sales of assets up to a potential \$1 billion over 5 years time. During 2018, we have continued to deliver on our strategy of achieving profitable exits, which amounted to \$120 million.

The exit strategy that the Group is adopting is either direct disposal of assets or converting certain real estate assets into end-product or yielding assets and exiting them.

The \$100 million that will be announced today is regarding part of the Harbor Row project in Bahrain and part of our Morocco project. Part of the profit associated with the transaction will be reflected during the first quarter of 2019 and the remainder over the course of 2019 subject to achievement of some conditions.

Proceeds received from real estate asset sales will allow GFH to alter its asset mix in the future more towards yielding investments and growth assets, as well as supporting dividend payments for shareholders.

We believe the value of our real estate portfolio is either in line with current market value or more conservatively valued, and this will assist us in the asset monetization program. For further information regarding the value of our real estate portfolio, kindly refer to independent research conducted on GFH Financial Group during 2017 (*the said report is attached for ease of reference*).

Question: Please comment on the share price performance and market reaction to results announcement.

Answer: We cannot comment on share price performance. We can comment on the performance of the Group, which we believe is strong.

I would like to explain the rationale behind the proposed dividend distribution. This has been done in consultation with the regulator in Bahrain, hence, a more conservative distribution has been decided.

Nevertheless, the cancellation of treasury shares, which form around 7% of GFH's share capital, equates to around \$63 million in terms of share buyback and value returned to shareholders. Coupled with the \$30 million proposed cash dividend distribution, this will give substantial value to shareholders. Furthermore, we expect GFH to continue its overall strategy of protecting shareholder value via market making and share buyback program.

Question: Please comment on the performance of Commercial Banking.

Answer: KHCB has appointed a new CEO during the early parts of 2018, and has switched focus on serving the most credible, low risk and profitable clients. A high volume of such transactions has already been booked, and this is in contrast to the previous strategy that served all segments of the market and as thus, suffered from high delinquency rates experienced throughout the entire performance.

We expect strong performance from Commercial Banking moving forward.



Question: Please comment on the trend of Assets and Funds Under Management.

Answer: During 2018, we have been able to raise further funds under management and today have \$6.8~\$7 billion in total assets and funds under management. We expect to grow the total size of assets and funds under management in the future by way of acquisitions as well as through organic growth.

Question: Please comment on the overall liquidity of the Group.

Answer: As of today, we have a total liquid asset balance exceeding \$1 billion, of which the cash portion forms the majority.

We are witnessing a multitude of attractive opportunities in the market for players with strong liquidity, giving them the ability to settle liabilities at discounts as well as acquiring assets at deep discounts.

The Board of Directors in tandem with management, and under the guidance of the Central Bank of Bahrain are aiming to transform GFH into a group that will enhance its book value, assets under management and create shareholder value over the long term.

Question: Please clarify where the income from real estate is included in the income statement.

Answer: Due to GFH's overall nature of business and consolidation of various subsidiaries, we understand it might be difficult to follow the notes.

The gain from the sale of the waterpark, as well as the income from Harbor Row sales are both embedded within other income (note 23).

Furthermore, please refer to note 35 for the overall income generated from GFH's real estate operating segment.

Question: Can you elaborate on Note 14 - \$84mn funds placed in non-financial entity, which is subject to regulatory sanctions.

Answer: This is part of placements received from other non-financial institutions, and this has been placed under reservations and review from the regulators and therefore have been frozen until further notice from the regulator. We do not believe those funds to be callable over the near term.

Question: Will the treasury shares be re-distributed as bonus shares?

Answer: Bonus share are different from the treasury shares. Treasury shares form part of the current issued capital of the Group, and have been accumulated through GFH's announced share buyback program (currently around 7% of share capital).

Bonus share are additional shares that will be issued to all shareholders of GFH as of the date of its Ordinary General Meeting.

We would like to thank you all for taking the time to listen to this webcast and look forward to interacting with you again the near future.

Focus on recurring operational income and acquisition-driven expansions—Initiate with Buy/Moderate Risk

- Strong balance sheet with low leverage.
- Growth by way of acquisitions and diversified overall portfolio.
- Focusing on income-generating investments and maximizing shareholders' value by exiting direct investments at attractive valuations.
- Initiate with Buy/Moderate Risk and a 12-month PT of AED2.929/share (+52%).

Targeting a robust 3-year growth strategy: In 2016, GFH Financial Group (GFH.DFM) set a new 3-year growth strategy to restructure the group into four business segments: commercial banking, investment banking, real estate, and direct investments. The strategy is to (1) focus on high yield investments, (2) unlock the value of the real estate portfolio, and (3) grow inorganically through acquisitions. As such, GFH's shareholders had approved earlier a plan to issue 1.7bn new shares at a fair value of USD0.9538/share. More recently, 1.2bn new shares were issued to acquire a number of infrastructure projects and investment funds across the Middle East, North Africa and Asia regions through a share swap.

Plans to expand its financial services offerings through acquisitions: The group is evaluating further acquisitions in the financial services within and outside the GCC to create a diversified financial platform. In line with this plan, GFH raised its stake in **Khaleeji Commercial Bank (KHCB.BSE)**, increasing contribution from a stable and growing commercial banking segment.

Focus on income-generating investments and value-accretive exits: To improve its earnings visibility, management strived to change the business model by which they used to manage their real estate portfolio, aiming to transform it to a capital-light business model through

partnering with several contractors to develop their land bank in return for a revenue share. Moreover, the group targets more acquisitions in the defensive sectors and high-yield assets in the GCC, Europe, and the United States. The group also has plans to monetize its direct investment portfolio at attractive valuations to maximize shareholders' value. According to management, during H1 2017, the group was able to monetize part of its education portfolio at attractive valuation levels.

We initiate coverage with Buy/Moderate Risk rating, 12M PT of AED2.929 (+52%): Using different valuation methods (excess return model, warranted equity model, and sum-of-the-parts), we reached a 12-month price target of AED2.929/share, implying a 52% upside potential to market price. Hence, we initiate coverage on the stock with Buy/Moderate Risk rating.

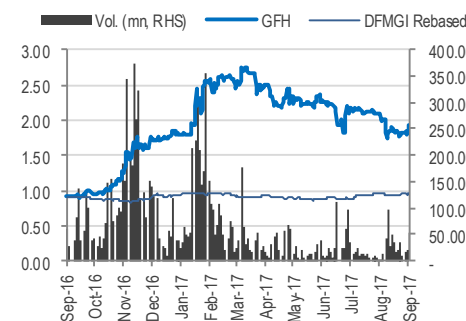
Key risks: Key risks include any economic slowdown in the GCC and MENA regions, delay in the implementation of its growth strategy, illiquid nature of real estate assets, competition between commercial banks in Bahrain, a higher interest rate environment, narrower NIMs, and currently-tight liquidity in the market worsening even further.

**Buy
Moderate Risk**

**12M Price Target: AED2.929
Expected Total Return: +52%**

Stock Performance & Details

GFH (AED) vs. DFMGI Rebased



Stock Details

Last price (AED)	193
52-W High (AED)	2.82
52-W Low (AED)	0.90
6M -ADVT (AEDmn)	54.25
% Chg: MoM	-7.66
% Chg: YoY	10.20
% Chg: YTD	4.58
Mubasher Ticker	GFH.DFM
Bloomberg Ticker	GFH.UH

Capital Details

No. of Shares (mn)	3,681.7
Mkt Cap (AEDmn)	7,105.6
Mkt. Cap (USDmn)	1,934.5
Public	55.00%

USD, 000s	2014a	2015a	2016a	2017e	2018e	2019e
Net funding income	37,820	40,211	52,985	58,834	63,941	70,005
Non-funding income	73,923	64,532	84,841	216,324	236,785	245,394
Total Operating income	111,743	104,743	137,826	275,158	300,726	315,399
Income Attributable to Shareholders	14,983	(5,520)	217,125	118,283	130,216	150,345
Net funding income growth (%)		6.3%	31.8%	11.0%	8.7%	9.5%
Non-funding income growth (%)		(12.7%)	31.5%	NM	9.5%	3.6%
Total operating income growth (%)		(6.3%)	31.6%	NM	9.3%	4.9%
Net income growth (%)		NM	NM	NM	10.1%	15.5%
Cost / total operating income	52.8%	59.3%	90.5%	37.6%	34.7%	33.4%
Equity / Total Assets	23.1%	26.3%	27.5%	32.3%	31.4%	29.0%
Debt / Equity	38.9%	22.1%	18.6%	18.0%	19.9%	40.1%
EPS (USD)	0.003	(0.002)	0.096	0.032	0.035	0.041
BVPS (USD)	0.136	0.308	0.402	0.361	0.371	0.384
DPS (USD)	0.000	0.000	0.027	0.026	0.028	0.029
PER (x)	136.4x	nm	4.8x	16.3x	14.8x	12.9x
PBV (x)	3.2x	0.5x	1.2x	1.5x	1.4x	1.4x
Dividend Yield (%)	0.0%	0.0%	5.7%	4.9%	5.4%	5.4%

Source: Company reports, MubasherTrade Research estimates

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GFH Financial Group | Corporate Profile

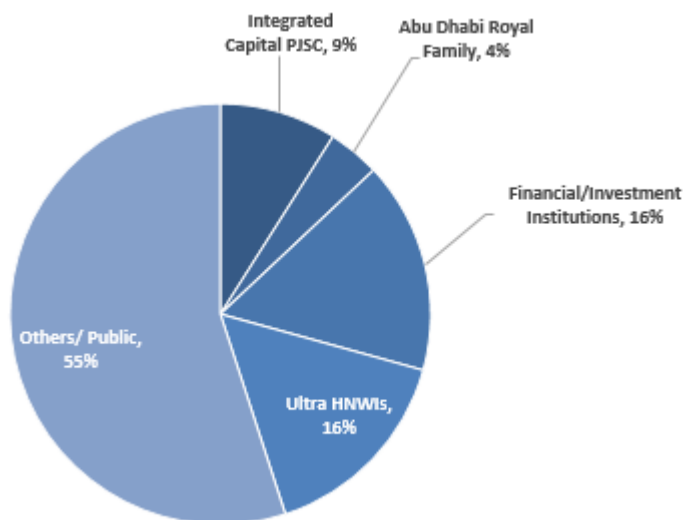
GFH Financial Group BSC (GFH.DFM) is a shareholding company established in October 1999 and has been listed on three stock exchanges in the GCC, including the Bahrain Bourse (BSE), Boursa Kuwait (KSE), and Dubai Financial Market (DFM) since 2004. Based in Manama, Bahrain, GFH operates within the financial sector, focusing on the diversified financials industry. Currently, GFH is engaged in four different business lines, namely commercial banking, investment banking, real estate, and direct investments. GFH's operations are mainly focused in the GCC countries with a geographic footprint in the Middle East and North African (MENA) region, the UK, India, and the United States. GFH's paid-in capital amounts to USD975.6mn distributed over 3,681.65mn ordinary shares with a par value of USD0.265. This includes a USD315mn capital increase executed recently through the issuance of 1.2bn new shares that were used to acquire additional stakes in several infrastructure projects. The main shareholder in GFH is Integrated Capital PJSC, an entity that is ultimately controlled by Abu Dhabi Financial Group (ADFG), with a 9.02% stake. Around 90% of GFH's shares are held on DFM, noting that there is no foreign ownership limits for this stock. In July 2017, GFH's credit rating was upgraded by Fitch Ratings from B- to B with a positive outlook, citing "a cleaner balance sheet".

Key Members of GFH's Board of Directors & Management Team

- H.E. Shaikh Ahmed Bin Khalifa Bin Salman Al Khalifa, Chairman:** H.E. Shaikh Ahmed Bin Khalifa Al Khalifa has more than 23 years of experience including banking, advisory and ministerial positions. He is currently the Advisor for Community Affairs at the Crown Prince Court (Rank of Minister). Throughout his career, Shaikh Ahmed managed to occupy several positions. In 2009, he became the Advisor to His Royal Highness the Crown Prince (Rank of Minister). In 2006, he was the Secretary General of Supreme Council for Defence (Rank of Minister). H.E. Shaikh Ahmed has also served as the Kingdom of Bahrain's ambassador to the United Arab Emirates from 2000 - 2006. Previously, he was the Head of Arab Banking Corporation's office in Abu Dhabi. H.E. Shaikh Ahmed holds a Bachelor degree in Computer Science and Accounting from University of Bahrain. H.E. Shaikh Ahmed has also accomplished successfully the Global Credit Analysis certificate from BPP Training and Consultancy (London), and the Gulf Executive Management and Strategic Leadership certificate from Colombia University (New York).
- Mr. Hisham Alrayes, Chief Executive Officer & Board Member:** Hisham Alrayes is the Chief Executive Officer as well as the

member of the Board of Directors of GFH Financial Group. In 2012, Mr. Alrayes assumed leadership of the firm with an objective to establish a diverse and well-recognized regional financial group offering a remarkable platform for Wealth Management, Real Estate, Commercial Banking and Asset Management. Prior to his role as the Group's CEO, Mr. Alrayes was GFH's Chief Investment Officer during which he was responsible for driving the development and execution of its regional and international investment strategy along with management of the bank's liabilities. Before joining the group in 2007, Mr. Alrayes was part of the senior management team of the Bank of Bahrain & Kuwait ('BBK'), a leading commercial bank in the Kingdom of Bahrain. During his tenure at BBK, Mr. Alrayes was responsible for a number of key projects and new venture initiatives. These included establishing one of the bank's key subsidiaries, as well as developing BBK's E-Banking platform. Mr. Alrayes is the Chairman of Balexco, Gulf Holding Company and holds directorship beside GFH Financial Group, in Khaleeji Commercial Bank, Falcon Cement Company and GFH Capital. Mr. Alrayes holds a Masters degree with Honors in Business Administration from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with Honors from the University of Bahrain.

Shareholder structure



Source: GFH Management

Board of directors

H.E. Sh. Ahmed Bin Khalifa Chairman	
Dr. Ahmed Al Mutawa	Vice Chairman
Hisham Alrayes	CEO & Board Member
Mazen Bin Al Saeed	Board Member
Jassim Al Seddiqi	Board Member
Rashid Nasser	Board Member
Mosbah Saif	Board Member
Ghazi Faisal	Board Member
Bashar Al Mutawa	Board Member

Source: GFH's reports

GFH Financial Group | Corporate Structure



Source: Company reports

GFH Financial Group | Valuation & Recommendation

We used different valuation methods to value GFH Financial Group given its multi-segment business model, ranging from commercial banking to investment banking, real estate, and direct investments. We valued GFH on a consolidated and on a sum-of-the-parts basis.

Consolidated Valuation

Based on our forecast for GFH's consolidated financial statements, we used two main valuation models, excess return model (ERM) and warranted equity valuation (WEV) model.

1. ERM – AED2.787/share: We built three stages to forecast GFH's net income, (3 years from 2017 to 2019, 7 years from 2020 to 2026, and a terminal stage (2027+). This resulted in a 12-month fair value of AED2.787/share, using:

- **COE:** We assumed a cost of equity (COE) of 9.1% for GFH over the 10 forecasted years as well as the terminal year. To come with GFH's COE, we used the build-up method, starting with its average cost of borrowing (which we estimated at 6.1%) then adding an equity risk premium of 300bps to account for GFH's B rating. For the terminal COE, we only added an ERP of 200bps, assuming GFH's risk profile will improve.
- **Nominal terminal growth rate (TGR):** 5.1% (based on a 3.0% real growth rate and a 2.0% expected inflation rate).

2. WEV – AED2.750/share: We based our model on GFH's long-term fundamentals in the terminal year (2027):

- Sustainable ROE of 12.0%.
- Terminal COE of 8.1%.
- TGR: 5.1%.

The above implied a price-to-book value multiple of 2.31x at the end of 2026 or an equity value of USD5.21bn, which when discounted to the present value amounted to USD2.53bn or USD0.687/share. This implies a 12-month fair value of (AED2.750/share).

Sum-of-the-Parts Valuation

We also used sum-of-the-parts (SOTP) valuation method to capture the intrinsic value of each

segment of GFH's business, which we believe gives us a better view of the fair value of each business on a stand-alone basis. We grouped the business segments into commercial banking, investment banking, real estate, and direct investments, which totaled AED3.249/share, split as follows:

1. Commercial Banking – AED0.262/share: This is mainly comprised of GFH's 55.41% stake in **Khaleeji Commercial Bank (KHCB)**, which we valued using both DCF and WEV models. *Please see the other section of the report for our assumptions, forecasts, and valuation.*

2. Investment Banking – AED0.390/share: This segment includes **GFH Capital Ltd.**, the group's investment banking arm. We valued it based on earnings multiple for comparable firms in the MENA region.

3. Real Estate – AED1.452/share: This segment includes GFH's investment real estate portfolio owned by the group as well as the recently-acquired infrastructure projects in Morocco, Tunisia, and India. We valued the whole segment using NAV provided by GFH's third-party evaluators.

4. Direct Investments – AED1.146/share: This segment includes all other equity investments owned by GFH. We valued the investments using NAV provided by GFH's third-party evaluators and book value, when an NAV was not available. The segment also includes the Group's development real estate, Al Areen Hotels and Al Areen Waterpark which we valued using the latest net asset values (NAVs) estimated by GFH's third-party evaluators in addition to GFH's 51% stake in **British School of Bahrain (BSB)** which we valued at 10x earnings.

Initiated with a Buy, 12-month PT AED2.929/share: To come up with our 12-month price target (PT), we calculated the average of all above three methods, namely ERM, WEV, and SOTP. Thus, our 12-month PT is AED2.929/share, implying a 52% upside potential above the market price. Thus, we initiate coverage on GFH with a Buy/Moderate Risk rating.

Investment Rationale

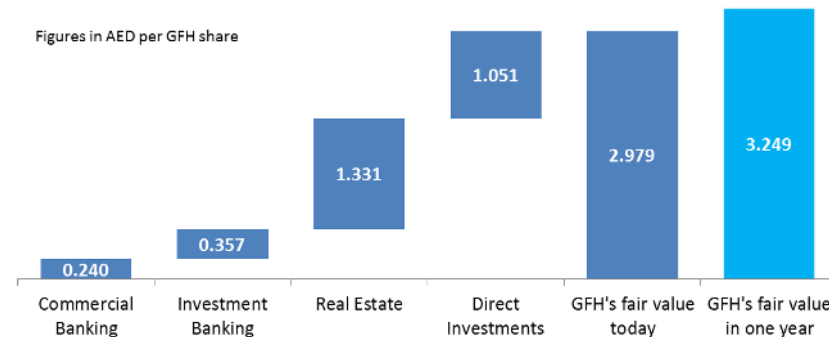
- A well-diversified portfolio with a geographical spread.
- Strong management with a strong track record of delivering shareholders' value.
- Growth strategy on the right track.
- Low-leveraged balance sheet facilitates debt-financed expansions.
- Highly liquid stock, with strong anchor investors.
- Focus on income-generating investments increases earnings' visibility.

Key Risks

- Any economic slowdown in the MENA and GCC regions, where most of the company's assets are located.

- Execution risk of the growth strategy, leading to lower-than-expected rates of return.
- Implementing the growth strategy is highly dependent on the management's ability to retain qualified personnel.
- Illiquidity of some of GFH's real estate projects that are subject to completion.
- Competition between banks in Bahrain could slow KHCB's loan growth and/or reduce its profitability.
- A higher interest rate environment.
- Newly-allocated shares are not locked, which could be a pressure on the stock performance.

Summary SOTP valuation



Source: MubasherTrade Research analysis; NAV provided by GFH

Summary 12-month price target

12-month price target	USD/share	AED/share
Excess return	0.759	2.787
Warranted equity valuation	0.749	2.750
Sum-of-the-parts	0.885	3.249
MTR 12M PT (average)	0.797	2.929
Market price	0.515	1.930
Upside/(downside) vs. market price	55%	52%

Source: MubasherTrade Research analysis

GFH Financial Group | Valuation & Recommendation (Cont. 'd)

Excess Return Model

Figures in USD 000s	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	Terminal
Net Income	118,283	130,216	150,345	157,182	169,552	183,000	197,629	213,552	230,893	249,788	270,387
Earnings growth rate		10.1%	15.5%	4.5%	7.9%	7.9%	8.0%	8.1%	8.1%	8.2%	5.1%
Equity	1,330,509	1,366,098	1,412,270	1,506,580	1,608,310	1,718,110	1,836,688	1,964,819	2,103,355	2,253,228	2,367,241
Less: Equity cost	(120,554)	(123,778)	(127,962)	(136,507)	(145,724)	(155,673)	(166,417)	(178,027)	(190,579)	(204,158)	(190,817)
Excess equity return	(2,270)	6,438	22,383	20,675	23,827	27,327	31,212	35,526	40,314	45,629	79,571
Terminal Value											2,651,731
ROE (beginning equity)	13.0%	9.8%	11.0%	11.1%	11.3%	11.4%	11.5%	11.6%	11.8%	11.9%	12.0%
COE	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	8.1%
Dividend payout ratio	80.0%	80.0%	70.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	57.8%
PV of excess return - 10 years	(2,205)	5,735	18,282	15,484	16,362	17,206	18,020	18,807	19,568	20,308	
PV of Terminal Value											1,180,208
BV invested (end of Q2 2017, adjusted) *	1,233,633										
PV of equity excess return - Next 10 years	147,568										
PV of Terminal value	1,180,208										
Fair value	2,561,409										
# of shares (mn)	3,681,650										
Fair value per share today	0.696										
Fair value per share in one year	0.759										

Warranted Equity Valuation

Figures in USD 000s	
Book value (end of 2026e)	2,253,228
Sustainable ROE	12.0%
Long-term nominal growth rate	5.1%
Terminal Cost of Equity	8.1%
Justified price-to-book value multiple	2.31
Warranted equity value (end of 2026e)	5,211,229
Warranted equity value today	2,527,593
# of shares (000)	3,681,650
Fair value per share today	0.687
Fair value per share in one year	0.749

Source: MubasherTrade Research estimates

Excess Return Model Sensitivity Analysis

Terminal COE	Terminal ROE	Terminal ROE				
		11.0%	11.5%	12.0%	12.5%	13.0%
7.1%	3.383	3.689	4.002	4.320	4.644	
7.6%	2.775	3.022	3.273	3.529	3.789	
8.1%	2.370	2.576	2.787	3.001	3.219	
8.6%	2.080	2.258	2.440	2.624	2.812	
9.1%	1.863	2.020	2.179	2.342	2.507	

Summary Fair Value per Share & PT in One Year

Method	Weight	Value (USD)	Value (AED)
Excess Return Model	33%	0.759	2.787
Warranted Equity Valuation	33%	0.749	2.750
Sum-of-the-parts	33%	0.885	3.249
Sum-of-the-parts		0.797	2.929
Upside potential		55%	52%

* Adjusted for recent capital increase in relation to acquired infrastructure projects.

GFH Financial Group | Valuation & Recommendation (Cont. 'd)

GFH's sum-of-the-parts (SOTP) valuation

Segment / Investment	Stake	Valuation method(s)	Equity value (USDm)	Proportionate equity value (USDm)	Per-share proportionate equity value (USD)	Per-share proportionate equity value today (AED)	Per-share proportionate equity value in one year (AED)
Commercial Banking							
Khaleeji Commercial Bank (KHCB)	55.41%	DCF and warranted equity	434.1	240.6	0.065	0.240	0.262
		Market value	317.2	175.8	0.048	0.175	0.191
Investment Banking							
GFH Capital Limited	100.00%	P/E (12.6x earnings)	358.1	358.1	0.097	0.357	0.390
Real Estate							
Tunis Bay Investment Company	47.74%	NAV	304.0	145.1	0.039	0.145	0.158
Energy City Navi Mumbai & India Projects	69.59%	NAV	789.0	549.1	0.149	0.548	0.597
Morocco Gateway Investment Co. (MGIC)	83.29%	NAV	224.0	186.6	0.051	0.186	0.203
Other real estate assets (land bank)	100.00%	NAV	453.6	453.6	0.123	0.453	0.494
Direct Investments							
Naseej BSC	100.00%	NAV	14.1	14.1	0.004	0.014	0.015
Bayan Holding Company	8.90%	NAV	147.0	13.1	0.004	0.013	0.014
Bahrain Financial Harbour - Land Plot	100.00%	NAV	466.1	466.1	0.127	0.465	0.507
Dubai Land- Land Plot	100.00%	NAV	154.5	154.5	0.042	0.154	0.168
Falcon Cement Company	32.00%	Book value	N/A				
United Arab Cement Company	38.90%	Book value	N/A				
Libya Investment Company	38.90%	Book value	N/A				
Amlak II SPV	23.51%	Book value	N/A	116.7	0.032	0.116	0.127
Bahrain Aluminum Extrusion	18.00%	Book value	N/A				
Global Banking Corporation	20.00%	Book value	N/A				
Enashaa Development Company	33.33%	Book value	N/A				
British School of Bahrain	51.00%	P/E (10x earnings)	117.6	60.0	0.016	0.060	0.065
Al Areen Hotels SPC	100.00%	NAV	148.0	148.0	0.040	0.148	0.161
Al Areen Waterpark (Lost Paradise of Delmon)	100.00%	NAV	81.0	81.0	0.022	0.081	0.088
Total fair value in one year, KHCB @ fair value			2,986.5	0.811	2.979	3.249	
Upside/(downside) vs. market price							68%
Total fair value in one year, KHCB @ market price			2,921.7	0.794	2.915	3.179	
Upside/(downside) vs. market price							65%

Source: NAVs are as per GFH's third-party reports, MubasherTrade Research estimates

GFH Financial Group | Business Model

A well-diversified portfolio with a geographical spread... : According to GFH, the group has four distinct operating segments: commercial banking, investment banking, real estate, and direct investments.

1. Commercial banking:

This business line includes commercial and corporate banking, retail banking, wealth management, structured investment products, and project financing facilities of the group's commercial banking subsidiary. The segment represents 30% of the company's total assets & funds under management. **Khaleeji Commercial Bank (KHCB.BSE)**, which is 55.4% owned by GFH, represents the commercial banking segment of the group. The segment saw its contribution to total revenues slightly decline from 38% in H1 2016, to 28% in H1 2017, where it generated USD32.0mn in H1 2017, increasing 0.6% YoY.

2. Investment banking:

The investment banking segment (**GFH Capital**) of the group consists of private equity and asset management investments.

- The private equity activities include acquisition of stable businesses, focusing on cash yielding investments within defensive sectors such as healthcare, education and consumer retail.
- The asset management unit invests in income-producing real estate assets across the US, Europe and GCC.

This segment contributed almost three quarters of operating revenue in H1 2017, positively impacted by the group's role in launching new private equity and asset management transactions. This segment only represents 10% of GFH's total assets & funds under management.

3. Real estate:

The group owns some of the most prime landbanks with more than 200 million square feet across the GCC, Africa and India. The group is aiming to monetize values from existing infrastructure and real estate projects (residential and commercial) by employing a capital-light model alongside key JV partners and contractors to develop its land bank.

During H1 2017, the group launched construction in its Harbor Row project, a luxurious water facing mixed-use project within Bahrain Financial Harbour comprising of unique high quality residential units and lively retail elements. The group has realized sales of USD43mn (24% of the project), with income expected to be realized in subsequent quarters based on the percentage of completion method.

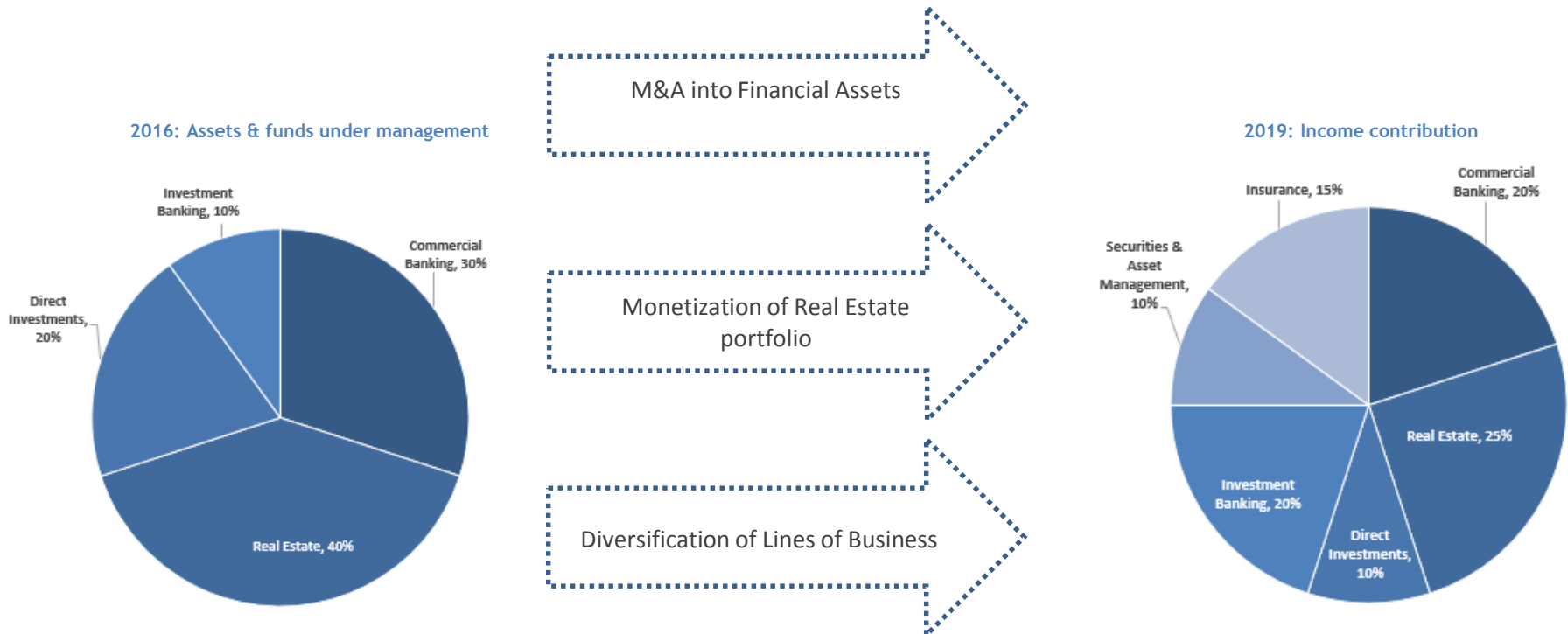
This segment represents 40% of GFH's total assets & funds under management.

4. Direct investments:

The group's direct investment portfolio consists of various assets across the education, leisure and hospitality sectors. Those assets are expected to be monetized at attractive valuations in the future, delivering value to GFH's shareholders. The segment represents 20% of GFH's total assets & funds under management.

GFH Financial Group | Business Model (Cont.'d)

... with a well-thought target to transform to a regional financial group with comprehensive verticals and diversified income contribution



Source: GFH Management

GFH Financial Group | Business Model (Cont.'d)

Portfolio of Investments

Investment Banking

- **Education portfolio:**
 - **Philadelphia Private School**
 - **Sheffield Private School**
 - **AMA WII:** AMA WII is an Education holding company based in Bahrain, which owns both the AMA University and AMA School
- **Income-producing real estate:**
 - **Diversified US Residential Portfolio (DURP):** The portfolio comprises of three multifamily residential complexes in Houston & Atlanta totaling 1,288 units with 94% occupancy.
 - **Jeddah Mall:** Event Mall, Jeddah The mall extends over an area of 131,000 m2 and is 100% occupied by retail shops, restaurants, kiosks and cafes.
 - **US industrial real estate:** Portfolios comprise of 29 multi and single tenant properties managed by an established property manager specialized in industrial real estate.
 - **US Data Center.**

Real Estate

- **Harbour Row:** Luxurious water-facing mixed-use project within Bahrain Financial Harbour comprising of unique high quality residential units and retail units.
- **Harbour North:** A casual medium and high end dining and entertainment complex in Bahrain.
- **California Village:** A mixed use development consisting of residential villas and service apartments along with common retail and facilities within close proximity to Sheikh Mohammed Bin Zayed road.
- **Mumbai Economic Development Zone**
- **Royal Parks Marrakech:** A mixed use project in Marrakech spanning over 380 hectares.
- **Tunis Financial Harbour:** A mixed use project in Arianna spanning over 523 hectares of land with an attractive beach front.
- **Areen Land**

Direct Investments

- **British School of Bahrain**
- **Areen Hotel & Water Park**
- **Falcon Cement Company (FCC)**
- **Bahrain Aluminum Extrusion Company (Balexco)**

GFH Financial Group | Investment Thesis

A leaner and stronger GFH set to unlock value for shareholders

Robust and aggressive growth strategy: In 2016, GFH set a new growth strategy aiming at transforming the company to a fully-integrated financial group. The plan has three pillars: (1) focusing on high yield investments, (2) unlocking the value of the real estate portfolio, and (3) inorganic growth through acquisitions. In doing so, GFH's shareholders approved a plan to issue 1.7bn new shares at a nominal value of USD 0.265/share in addition to a share premium of USD0.688 (total share value of USD0.9538) as per an independent third party valuation. New shares were used to acquire a number of infrastructure projects and investment funds across the MENASA (Middle East, North Africa and Asia) regions through a share swap. By August 2017, GFH completed the acquisition of a USD1.2bn infrastructure portfolio in Africa and the Middle East. The acquisition was funded by a USD315mn share (i.e. non-cash) capital increase. Infrastructure projects acquired were:

- **Mumbai Economic Development Zone** is located in Navi, Mumbai with a land area exceeding 510 hectares. The estimated development value for this project is USD5bn and the estimated NAV ranges between USD700mn-USD1bn.
- **Royal Parks Marrakech in Morocco** is a mixed use development project in the city of Marrakech spanning over 380 hectares of land, with development value of USD2bn and estimated NAV ranges from USD200-300mn.
- **Tunis Financial Harbour** is a mixed use project in Arianna spanning over 523 hectares of land with an attractive beach front. Project being developed in four phases including: commercial zones, medical city and residential units. The development value is USD3bn and estimated NAV ranges from USD200-300mn.

It is important to highlight that all these assets have been recorded at the value implied by the par value of the swapped shares (c.USD315mn). Hence, this may trigger massive capital gains once these assets are offered for sale or marked to market. According to management, the growth

strategy is expected to raise total assets and funds under management to USD11.6bn by 2019 from just USD6.2bn in 2016 (CAGR: 23%), while equity is estimated to grow to USD2.5bn vs. USD908mn in 2016.

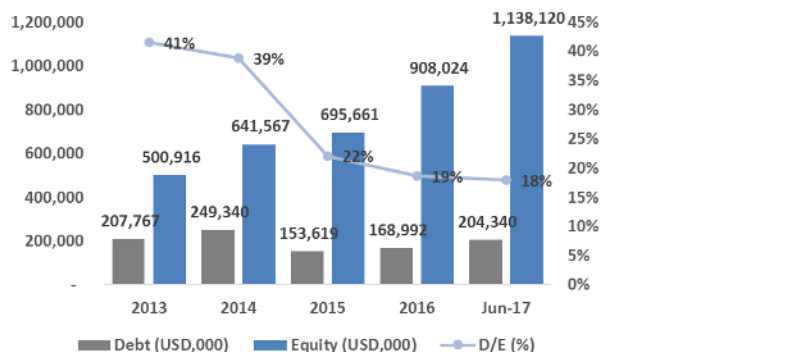
An investment opportunity for investors looking to diversify their portfolio: Investing in GFH provides shareholders with a unique opportunity to diversify their holdings. GFH is wisely invested in diverse asset classes and sectors including real estate, financial services, education, tourism and entertainment through direct and indirect holdings.

Low-leverage profile, giving room for debt-funded expansions: Between 2013 and 2017, GFH has significantly reduced its leverage, through value creation for its shareholders. GFH's debt-to-equity ratio fell from 41% in 2013, to just 18% by the end of June 2017, leaving ample room for the company to tap debt market for further expansions.

Focus on income-generating investments provides higher earnings visibility: By raising its stake in KHCB, GFH is increasing revenue contribution from the more stable and growing commercial banking activities, especially as the bank cleans up its NPL portfolio. Management also strived to change the business model by which they used to manage their real estate portfolio, aiming to transform it to a capital-light business model, through partnering with several contractors to develop their land bank in return for a revenue sharing.

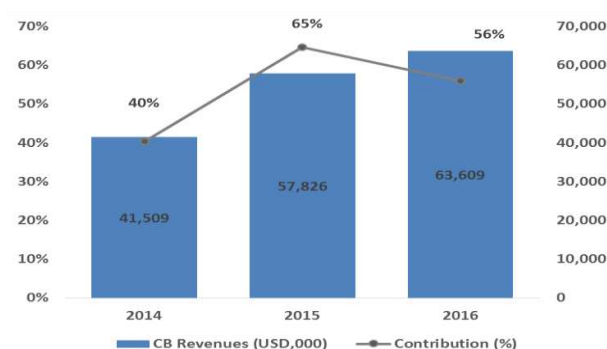
Strong anchor investors: The presence of Abu Dhabi Financial Group (ADFG) as a significant shareholder via Integrated Capital, an entity that is ultimately controlled by ADFG, is positively viewed as growth supporter for GFH.

Evolution of Debt to Equity



Source: GFH Financial

Higher contribution from commercial banking provides more earnings visibility



Source: GFH Financial

GFH Financial Group | Financial Performance

GFH turns to profit during 2016: In 2016, GFH reported net income amounting to USD217.1mn vs. a net loss of USD5.5mn in 2015, thanks to income generated from settlement of litigations, which amounted to USD464.6mn. GFH adopted a conservative provisioning policy during 2016 due to major recoveries achieved, booking USD221.1mn of impairments vs. USD17.0mn in the previous year. Removing the impact of such provisions, net income would have recorded USD438.2mn.

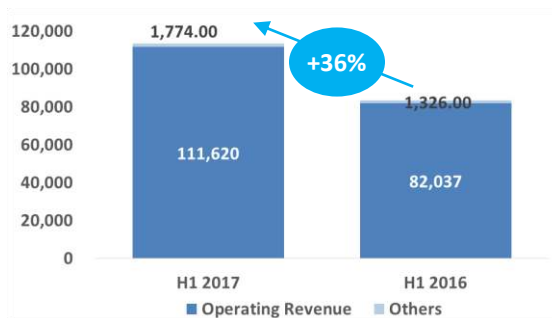
- **Recoveries:** During 2016, GFH resolved several disputes with counterparties, receiving out-of-court settlements amounting to USD464.6mn, in the form of assets. The settlements included real estate properties amounting to USD310.1mn, controlling and non-controlling stakes in several entities, including the British School of Bahrain, Global Banking Corporation among others.
- **Commercial banking (CB):** The segment's net operating income increased 8% YoY to USD30.9mn, with revenues growing 11% YoY to USD63.6mn. Khaleeji Commercial Bank (KHCB) expanded during the year through 11 new branches in Bahrain, while its assets grew 17% YoY to USD2.0bn and its customers' deposits added 20% YoY to USD1.54bn.
- **Investments Banking (IB):** During the year, revenues from IB were slashed to USD1.5mn vs. USD26.1mn in 2015 mainly due to management's focus on dispute settlements and recovering of assets. Operating expenses (excluding impairments) hiked 216% YoY to USD41.2mn. Hence, the segment recorded a net operating loss of USD39.7mn vs. net operating income of USD13.1mn in the previous year.
- **Real Estate:** After reporting net operating loss of USD6.2mn in 2015, the segment turned to profits, posting USD23.2mn of net operating income in 2016. Revenues from the segment jumped 9 folds to USD48.8mn, driven by higher gains on sale of development properties. During the year, the company launched several real estate projects, including Villamar, the Harbour

Row project and the California Village project in Dubai, which are expected to boost GFH's income in the coming years.

GFH's H1 2017 net profit up 439% YoY to USD62.1mn on stronger IB and CB operations: GFH posted a net profit of USD62.1mn in H1 2017, up 439% YoY. Excluding the effect of impairments recovery of USD3.5mn, earnings would have recorded USD58.7mn, a 97% YoY increase. Earnings YoY performance was mainly attributable to a strong performance by IB and commercial banking (CB) operations, lifting the group's revenues to USD113.4mn in H1 2017, up 36% YoY.

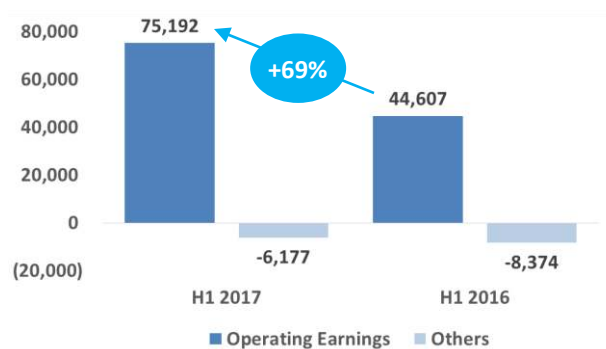
- **Commercial banking (CB):** CB segment's revenues rose 1% YoY to USD32.0mn on higher income from financing assets and assets acquired for leasing in H1 2017. Segment's net operating profit grew 54% YoY to USD18.9mn. Excluding the impact of USD4.9mn of impairments recovery, earnings for the segment would have recorded USD13.95mn, down 9% YoY.
- **Investments Banking (IB):** GFH recorded net operating profits of USD68.2mn (excluding impairments) in H1 2017 from the IB segment compared to net losses of USD9.8mn in H1 2016, driven by higher revenues generated from placement of private equity subsidiaries and other investment products. During H1 2017, the segment booked impairments amounting to USD1.3mn, resulting in net profits after impairments of USD66.8mn, (+102% YoY). Revenues from the segment hiked to USD88.5mn vs. USD2.13mn in the same period of 2016, thanks to management focus on monetizing assets and investments. It is worthy to mention that this segment contributes 78% to the group's total revenues, with the remaining 22% coming from CB and real estate development segments.

Revenues grew 36% YoY in H1 2017(USD, 000)



Source: GFH Financial

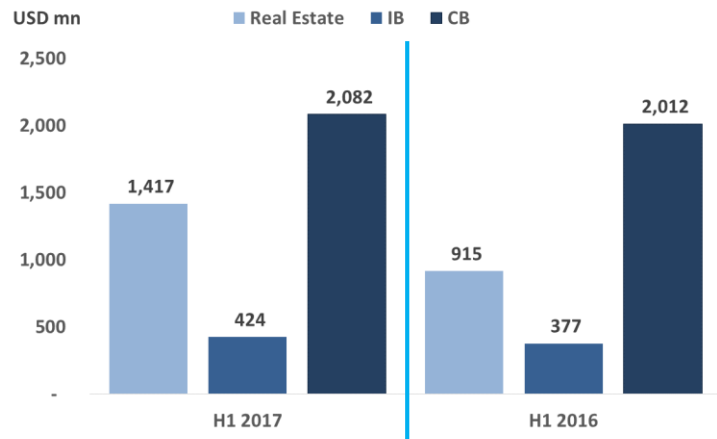
Earnings (excluding impairments) grow on IB performance (USD, 000)



Source: GFH Financial

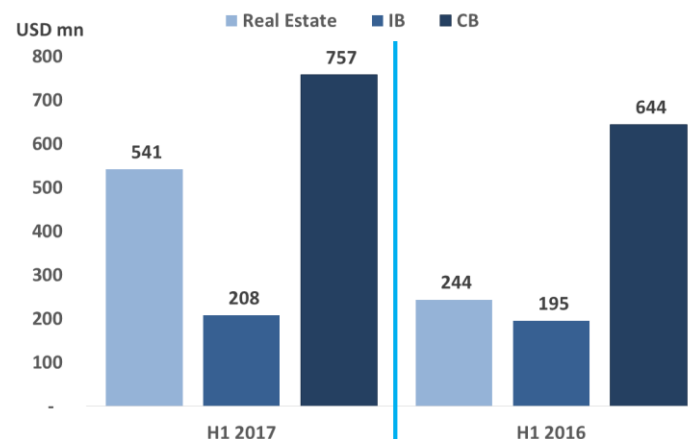
GFH Financial Group | Financial Performance (Cont.'d)

Assets value by segment (excluding un-allocated)



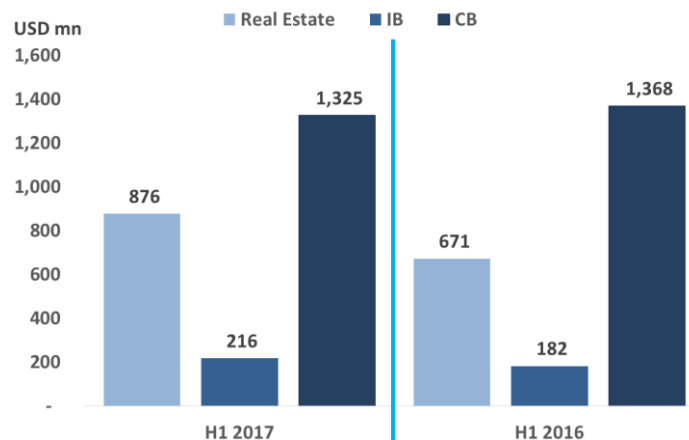
Source: GFH Financial

Liabilities by segment (excluding un-allocated)



Source: GFH Financial

Equity book value by segment (excluding un-allocated)



Source: GFH Financial

GFH Financial Group | Financial Summary

Balance Sheet (USD, 000)						
FY End: December	2014a	2015a	2016a	2017e	2018e	2019e
Assets						
Cash and bank balances	129,938	122,165	156,448	306,238	411,803	755,919
Placements with financial institutions	248,482	122,348	213,898	234,167	250,553	267,806
Financing assets	782,628	859,421	961,490	1,003,852	1,068,055	1,162,241
Investment securities& Assets held for sale	482,596	573,453	527,203	473,431	481,694	498,339
Assets acquired for leasing	114,008	179,870	246,257	308,203	329,769	352,477
Investment properties	313,635	257,932	488,436	484,973	484,973	484,973
Development properties	131,317	179,577	280,972	882,765	882,765	882,765
Equity-accounted investee	21,173	81,274	79,010	121,098	131,391	144,530
Property, plant and equipment	166,375	25,602	169,153	120,016	118,896	117,791
Intangible Assets	125,176	-	54,891	-	-	-
Other assets	266,914	248,160	125,643	179,661	192,232	205,470
Total Assets	2,782,242	2,649,802	3,303,401	4,114,403	4,352,131	4,872,311
Liabilities & Equity						
Placements from institutions and individuals	339,458	340,090	570,515	746,689	798,938	853,953
Investors' funds	18,675	27,728	44,565	32,744	35,035	37,448
Customer current accounts	111,684	154,052	192,783	210,870	225,626	241,162
Financing liabilities (Debt)	249,340	153,619	168,992	239,566	271,992	566,583
Other liabilities	149,872	135,977	182,649	208,413	222,997	238,352
Equity of investment account holders	895,558	944,915	1,022,190	1,125,502	1,204,258	1,287,184
Total Liabilities	1,764,587	1,756,381	2,181,694	2,563,784	2,758,845	3,224,683
Minority Interest	376,088	197,760	213,683	220,111	227,187	235,358
Total Equity	641,567	695,661	908,025	1,330,509	1,366,098	1,412,270
Total Liabilities & Equity	2,782,242	2,649,802	3,303,402	4,114,403	4,352,131	4,872,311

Income Statement (USD, 000)						
	2014a	2015a	2016e	2017e	2018e	2019e
Financing, leasing, interbank assets Income	60,955	58,475	71,966	82,983	92,832	103,821
Return to investment account holders	(23,135)	(18,264)	(18,981)	(24,149)	(28,891)	(33,816)
Net funding income	37,820	40,211	52,985	58,834	63,941	70,005
Non-funding income	73,923	64,532	84,841	216,324	236,785	245,394
Total Operating income	111,743	104,743	137,826	275,158	300,726	315,399
Operating expenses	(52,939)	(59,114)	(121,012)	(101,925)	(102,776)	(103,644)
Depreciation and Amortization	(6,013)	(2,995)	(3,784)	(1,632)	(1,620)	(1,605)
Finance expense	(21,416)	(16,758)	(23,437)	(39,853)	(36,656)	(39,475)
Total Operating expenses	(80,368)	(78,867)	(148,233)	(143,410)	(141,052)	(144,724)
Profit (loss) before impairments	31,375	25,876	(10,407)	131,749	159,674	170,675
Impairment	(14,120)	(17,016)	(221,112)	(7,037)	(22,381)	(12,160)
Profit from continuing operations	17,255	8,860	(231,519)	124,711	137,293	158,515
Income from discontinued operations	10,096	3,165	464,567	-	-	-
NP Before MI	27,351	12,025	233,048	124,711	137,293	158,515
Minority interests	(12,368)	(17,545)	(15,923)	(6,428)	(7,076)	(8,170)
Income Attributable to Shareholders	14,983	(5,520)	217,125	118,283	130,216	150,345

Source: Company data, MubasherTrade Research estimates

Per-Share Data						
	2014a	2015a	2016a	2017e	2018e	2019e
Price (AED)	0.680	0.446	1.845	1.930	1.930	1.930
Price (USD)	0.432	0.145	0.464	0.525	0.525	0.525
# Shares (mn)	4,731	2,257	2,257	3,682	3,682	3,682
EPS	0.003	(0.002)	0.096	0.032	0.035	0.041
DPS	0.000	0.000	0.027	0.026	0.028	0.029
BVPS	0.136	0.308	0.402	0.361	0.371	0.384

Valuation Indicators						
	2014a	2015a	2016a	2017e	2018e	2019e
P/E	136.4x	nm	4.8x	16.3x	14.8x	12.9x
P/BV	3.2x	0.5x	1.2x	1.5x	1.4x	1.4x
Net funding income/Total operating income	33.8%	38.4%	38.4%	21.4%	21.3%	22.2%
Non-funding income/Total operating income	66.2%	61.6%	61.6%	78.6%	78.7%	77.8%
Dividend Payout Ratio	0.0%	0.0%	27.5%	80.0%	80.0%	70.0%
Dividend Yield	0.0%	0.0%	5.7%	4.9%	5.4%	5.4%

Growth Rates						
	2015a	2016a	2017e	2018e	2019e	
Net funding income	6%	32%	11%	9%	9%	
Non-funding income	-13%	31%	NM	9%	4%	
Total operating income	-6%	32%	NM	9%	5%	
Net earnings (after minorities)	NM	NM	NM	10%	15%	
Adjusted net earnings (after minorities)	-60%	NM	NM	22%	6%	
Total assets	-5%	25%	25%	6%	12%	

Profitability Ratios						
	2014a	2015a	2016a	2017e	2018e	2019e
ROAA	0.8%	-0.2%	7.3%	3.2%	3.1%	3.3%
ROAE	2.6%	-0.8%	27.1%	10.6%	9.7%	10.8%

Efficiency, Capital adequacy & liquidity ratios						
	2014a	2015a	2016a	2017e	2018e	2019e
Cost / total operating income	53%	59%	91%	38%	35%	33%
Cost / Net funding income	156%	154%	236%	176%	163%	150%
Cost / Non-funding income	80%	96%	147%	48%	44%	43%
Equity / Total Assets	23%	26%	27%	32%	31%	29%
Debt / Equity	39%	22%	19%	18%	20%	40%

a = Actual; e = Estimate; NM = Not Meaningful

Share price at 7-Sep-17

Khaleeji Commercial Bank (KHCB) | Forecast Assumptions

KHCB's loans & deposits growth outpaces the industry: Out of 13 local banks in Bahrain, **Khaleeji Commercial Bank (KHCB.BSE)** (which is listed on Bahrain Bourse) is ranked the 8th in terms of assets, the 8th in terms of net loans, and the 7th in terms of deposits.

- KHCB has seen its net loans growth outpace Bahrain's banking industry, logging a 2-year CAGR (2014-2016) of 10% compared to 6% for the entire industry. KHCB's lending increased 4% YoY as of June 2017 (vs. +11.5% YoY as of December 2016). **We expect KHCB's net loans to grow by 6.4% YoY to USD1bn in 2017 and to grow at a 6-year CAGR (2016-2022) of 8% to USD1.49bn by 2022.**
- On the other hand, KHCB's deposits increased by 12% YoY as of June 2017 (+2% YTD as of June 2017) to USD1.25bn. The bank's customer deposits (including equity of investment account holders) grew at a 2-year CAGR (2014-2016) of 11% compared to 3% for the industry's aggregate deposits over the same period. **We expect KHCB's deposits to increase by 4.8% YoY to USD1.3bn in 2017 and to grow by a 6-year CAGR (2016-2022) of 6% to USD1.85bn by 2022.**
- The bank's net loans-to-deposits ratio (LDR) stood at 74% as of December 2016 (77% as of June 2017) compared to an industry average of 49% (50% as of March 2017). **We expect**

the LDR to reach 75% in 2017 then reach its highest level at 80.5% at the end of our forecast period in 2022.

KHCB's asset quality indicators to improve gradually over our forecast period: KHCB's non-performing loans (NPLs) as a percentage of gross loans (i.e. NPL ratio) deteriorated from 4.5% in 2015 to 11.5% in 2016. **We forecast that the bank's NPL ratio will decrease to 10.9% by end of 2017 then improve gradually over our forecast period to reach 7.6% by 2022.** Similarly, NPL coverage ratio (the percentage of NPLs covered by loan loss provisions) deteriorated from 92% in 2015 to 43% in 2016. **We expect the NPL coverage ratio to increase gradually over our forecast period to reach 61% in 2017 then 119% by the end of 2022, as the bank reduces its NPLs and builds up provisions.**

KHCB's net interest income edges higher on greater yields:

KHCB's net interest income (NII) grew 36% YoY in 2016 to USD44.3mn. The bank was able to improve its net interest margin (NIM) by 51bps YoY, recording 2.8% in 2016 versus 2015 due to the witnessed decrease in the cost of funds in addition to an improving asset yield. **We expected NII to grow by 10% YoY in 2017 to reach USD48.8mn and to grow by a 6-year CAGR of 9% to reach USD74mn by 2022. We also expect the bank's NIM to decrease marginally in 2017 by 6bps to reach 2.74% given the expected increase in the bank's cost of**

deposits following the Federal Reserve's decision to hike interest rates. We then expect NIMs to increase gradually to 2.78% in 2022, its highest level over our forecast period.

KHCB's net profit to grow in double digits in 2017: KHCB had posted a 24% YoY decrease in 2016 net profits (-27% YoY in H1 2017), recording USD14.1mn due to the witnessed sharp increase in the bank's impairment charges. The bank booked an impairment charge of USD4.9mn on equity securities in addition to an impairment allowances of USD27.9mn for unquoted equity securities and USD20.2mn as an impairment charge for loans. **We expect the bank's net profits to grow by 38% YoY to reach USD19.5mn in 2017 and to grow at a 6-year CAGR (2016-2022) of 28% to reach USD61mn by 2022. We expect the bank's ROE will average 6.3% in 2017 up from 4.8% in 2016. We expect the bank's ROAA will increase from 0.7% in 2016 to 0.9% in 2017 then to gradually increase to 1.9% by 2022, its highest level over our forecast period.**

Declining cost-to-income ratio: KHCB's cost-to-income ratio has consistently slipped from 72% in 2014 to 45% in 2016 (54% in H1 2017), reflecting the bank's effective management and improved efficiency. **We expect the bank's cost-to-income ratio to reach 44% in 2017 then to improve gradually to reach 39% in 2022, its lowest level over our forecast period.**

Key Assumptions

Key Assumptions (USDmn)	2014a	2015a	2016a	2017e	2018e	2019e	2020e	2021e	2022e	Terminal	CAGR (2014-2016)	CAGR (2016-2022)
KHCB net loans	784	845	942	1,002	1,067	1,161	1,262	1,373	1,492	1,620	10%	8%
Market share	4.2%	4.1%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%		
YoY Growth	17%	8%	12%	6%	6%	9%	9%	9%	9%	9%		
KHCB deposits	1,025	1,158	1,273	1,335	1,428	1,526	1,630	1,739	1,853	1,974	11%	6%
Market share	2%	3%	3%	3%	3%	3%	3%	3%	3%	4%		
YoY Growth	24%	13%	10%	5%	7%	7%	7%	7%	7%	7%		
Total banking income	41	56	68	72	80	91	100	109	119	128	30%	10%
YoY Growth	115%	39%	21%	5%	11%	13%	10%	9%	8%	8%		
Operating expenses	(29)	(29)	(31)	(32)	(34)	(38)	(41)	(44)	(46)	(49)	2%	7%
YoY Growth	1%	-2%	7%	3%	9%	10%	8%	6%	6%	6%		
Net income	8	19	14	19	24	41	46	54	61	70	31%	28%
YoY Growth	116%	127%	-24%	38%	21%	73%	13%	16%	14%	13%		

Source: Company data, MubasherTrade Research estimates

Khaleeji Commercial Bank (KHCB) | Valuation

Discounted Cash Flow (DCF) – USD0.414/share (BHD0.156/share): Our Discounted Cash Flow (DCF) resulted in a fair value of USD0.414/share (BHD0.156/share), derived as follows:

Cost of equity (COE): 9.5% based on the following:

- The US 10-year Treasury yield of 2.21%.
- An inflation differential between Bahrain and the United States of 1%.
- An adjusted beta of 1.0.
- Bahrain's equity risk premium (ERP) of 7.7% (i.e. US ERP of 5.03% + Bahrain's country risk premium of 2.65%, as implied by its credit default swap (CDS) of 2.3%, levered up by 30% to account for inherent volatility in equity returns).

• **Nominal terminal growth rate (TGR):** 3%.

Discounted Cash Flow Model

Figures in USDmn	2017e	2018e	2019e	2020e	2021e	2022e	Terminal
Risk weighted assets(RWA)	1,866	1,984	2,148	2,338	2,530	2,735	
RWA growth	12.0%	6.3%	8.2%	8.9%	8.2%	8.1%	
RWA change	200	118	164	191	192	205	
Min. CAR required	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	
Capital required at 12.5%	25	15	20	24	24	26	
Net Income	19	24	41	46	54	61	
Less: Capital required at 12.5%	(25)	(15)	(20)	(24)	(24)	(26)	
Free cash flows	(6)	9	20	22	30	36	37
ROAE	6.3%	7.1%	11.2%	11.4%	11.8%	12.0%	
COE	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
PV of cash flows	(5)	8	16	16	20	22	
Terminal cash flow							581
PV of forecasts	77						
PV of Terminal value	358						
Fair value	435						
# of shares (mn)	1,050						
Fair value per share (USD)	0.414						

Average Fair Value per Share

Method	Weight	Value (USD)	Value (BHD)
Discounted Cash Flow Model	50%	0.414	0.156
Warranted Equity Valuation	50%	0.413	0.156
Average fair value today (USD)		0.413	0.156
Total bank's fair value today (USDmn)		434.1	163.8

Warranted Equity Valuation (WEV) Model – USD0.413/share (BHD0.156/share): Our Warranted Equity Valuation (WEV) model resulted in a fair value of USD0.413/share (BHD0.156/share), using:

- Long-term ROE of 11.1%.
- Terminal COE of 9.5%.

Averaging both valuation models, we reached a fair value today of USD0.413/share (BHD0.156/share), implying an equity valuation of USD434.1mn (BHD163.8mn).

Warranted Equity Valuation

Figures in USDmn	
Adjusted book value (end of 2022e) *	566
Sustainable ROE	11.1%
Long-term nominal growth rate	3.0%
Terminal Cost of Equity	9.5%
Justified price-to-book value multiple	1.24
Warranted equity value (end of 2022e)	703
Warranted equity value today	433
# of shares	1,050
Value/share	0.413

* Adjusted for NPL coverage

* Book value adjusted for NPL under/over-provisioning.
Source: Company data, MubasherTrade Research estimates

Khaleeji Commercial Bank (KHCB) | Financial Summary

Balance Sheet (USDmn)						
FY End: December	2014a	2015a	2016a	2017e	2018e	2019e
Interbank assets	300.7	226.0	357.5	400.2	428.2	457.7
Net customer loans	784.5	845.2	943.0	1,002.5	1,066.6	1,160.6
Securities holdings (assets)	307.4	398.8	400.1	459.2	481.8	527.2
T-bills	-	-	-	-	-	-
Goodwill & Intangible assets	-	-	-	-	-	-
Non earning and other assets	190.0	264.2	329.4	411.5	440.3	470.6
Total Assets	1,582.5	1,734.2	2,030.0	2,273.4	2,416.9	2,616.2

Liabilities & Equity						
Interbank liabilities	249.3	252.8	423.9	580.0	611.8	653.9
Customer deposits	1,025.5	1,159.2	1,275.0	1,334.5	1,427.9	1,526.2
Debt	-	-	-	-	-	-
Other liabilities	26.8	26.1	22.1	30.2	25.0	43.2
Total liabilities	1,301.7	1,438.0	1,720.9	1,944.8	2,064.7	2,223.3
Shareholders equity	273.5	286.1	299.1	318.5	342.1	382.8
Minority Interests	7.4	10.1	10.1	10.1	10.1	10.0
Total Liabilities & Equity	1,582.5	1,734.2	2,030.0	2,273.4	2,416.9	2,616.2

Income Statement (USDmn)						
FY End: December	2014a	2015a	2016a	2017e	2018e	2019e
Interest income	58.2	58.4	71.2	82.9	92.7	103.7
Interest expense	(31.6)	(25.7)	(26.9)	(34.2)	(40.8)	(47.8)
Net interest income	26.6	32.7	44.3	48.8	51.9	55.9
Net fee and commission income	10.3	11.7	14.4	16.4	17.8	19.1
Net trading income	3.8	12.1	9.7	6.9	10.6	15.9
Other net income	-	-	-	-	-	-
Total banking income	40.7	56.5	68.4	72.1	80.3	90.8
General & administrative expenses	(16.4)	(15.2)	(15.9)	(15.8)	(17.6)	(20.2)
Depreciation	(1.7)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Other operating expenses	(11.3)	(12.2)	(13.5)	(14.5)	(15.5)	(16.5)
Total costs	(29.4)	(28.7)	(30.7)	(31.6)	(34.4)	(38.0)
Operating profit	11.3	27.8	37.8	40.5	45.9	52.9
Loan loss charge	(1.3)	(6.6)	(23.7)	(21.1)	(22.4)	(12.2)
Impairment Losses on Financial Investments	-	-	-	-	-	-
Other Net Non Operating Income (expense)	0.1	-	-	-	-	-
Pre-tax profit	10.1	21.3	14.1	19.5	23.6	40.7
Taxes	-	-	-	-	-	-
Minority interest	(1.9)	(2.7)	0.0	0.0	0.0	0.0
Attributable net profit	8.2	18.6	14.1	19.5	23.6	40.7

Per-Share Data						
	2014a	2015a	2016a	2017e	2018e	2019e
Price (USD)	0.125	0.179	0.191	0.302	0.302	0.302
# Shares (in mn)	1,154	1,000	1,050	1,050	1,050	1,050
EPS	0.007	0.019	0.013	0.019	0.022	0.039
DPS	-	-	-	-	-	-
BVPS	0.237	0.286	0.285	0.303	0.326	0.365

Valuation Indicators						
	2014a	2015a	2016a	2017e	2018e	2019e
PER	17.6x	9.6x	14.2x	16.3x	13.5x	7.8x
PBV	0.5x	0.6x	0.7x	1.0x	0.9x	0.8x
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Profitability & Growth Ratios						
	2014a	2015a	2016a	2017e	2018e	2019e
Net Interest Income Growth	65.4%	23.1%	35.5%	10.0%	6.4%	7.7%
Non-Interest Income Growth	400.3%	68.5%	1.3%	-3.0%	21.9%	22.7%
Net Income Growth	116.1%	126.7%	-24.2%	38.1%	21.1%	72.7%
Net Interest Margin	2.0%	2.3%	2.8%	2.7%	2.7%	2.7%
ROAA	0.5%	1.1%	0.7%	0.9%	1.0%	1.6%
ROAE	3.0%	6.6%	4.8%	6.3%	7.1%	11.2%
Adjusted ROAE	3.2%	6.8%	5.4%	7.6%	7.9%	11.8%
Yield on AIEA	4.4%	4.1%	4.5%	4.7%	4.8%	5.0%
Cost of Funds	2.6%	1.9%	1.7%	1.9%	2.1%	2.3%
Spread	1.8%	2.2%	2.8%	2.8%	2.8%	2.8%
Cost/Income	72.1%	50.7%	44.8%	43.8%	42.8%	41.8%
NI/total banking income	65.3%	57.9%	64.8%	67.6%	64.5%	61.5%

Liquidity & Asset Quality						
	2014a	2015a	2016a	2017e	2018e	2019e
Net Loans-to-Deposits	76.5%	72.9%	74.0%	75.1%	74.7%	76.0%
Total CAR	23.3%	18.1%	18.4%	NA	NA	NA
NPLs/Gross Loans	5.3%	4.5%	11.5%	10.9%	10.2%	9.6%
NPL Coverage Ratio	83%	92%	43%	61%	81%	90%

Source: Company data, MubasherTrade Research estimates

Share price at 7-Sep-17

Disclosure Appendix

Important Disclosures

METHODOLOGY: We strive to search for the best businesses that trade at the lowest valuation levels as measured by an issuer's intrinsic value on a per-share basis. In doing so, we follow both top-down and bottom-up approaches. Under the top-down approach, we attempt to study the most important quantitative and qualitative factors that we believe can affect a security's value, including macroeconomic, sector-specific, and company-specific factors. Under the bottom-up approach, we focus on the analysis of individual stocks by running our proprietary scoring model, including valuation, financial performance, sentiment, trading, risk, and value creation.

COUNTRY MACRO RATINGS: We analyze the four main sectors of a country's macroeconomics, then we assign ★★★, ★★, and ★ star for low risk, moderate risk, and high risk, respectively. We use different weights for each economic sector: (a) Real Sector (30% weight), (b) Monetary Sector (10% weight), (c) Fiscal Sector (25% weight), (d) External Sector (15% weight), and (e) Credit Rating and Outlook (20%).

STOCK MARKET RATINGS: We compare our year-end price targets for the subject market index on a total-return basis versus our calculated required rate of return (RRR). Taking into account our Country Macro Rating, we set the "Neutral" borderline (below which is "Underweight") as 20% of RRR for ★★★ Country Macro Rating, 40% of RRR for ★★ Country Macro Rating, and 60% of RRR for ★ Country Macro Rating. That said, our index price targets are based on the average of two models. **Model (1):** Estimated index levels based on consensus price targets of all index constituents. Stocks with no price targets are valued at market price. **Model (2):** Estimated index levels based on our expected re-pricing (whether re-rating, de-rating, or unchanged rating) of the forward price-earnings ratio (PER) of each index in addition to consensus earnings growth for the forward year.

SECTOR RATINGS: On the sectors level, we focus on six major sectors, namely (1) Consumer and Health Care, (2) Financials, (3) Industrials, Energy, & Utilities, (4) Materials, (5) Real Estate, and (6) Telecom Services & IT. To assess each sector, we use the SWOT analysis to list the strengths, weaknesses, opportunities, and threats in each country. We then translate our qualitative SWOT analysis into a quantitative model to evaluate all six sectors across countries. Each of the measures we used, although mostly subjective, is assigned a score as either +1 (high impact), 0 (medium impact), or -1 (low impact). At a later stage, when assigning the final rating – Overweight, Neutral, or Underweight – for each sector in each country, we realize that sometimes it is unfair to assign equal weights for the sub-sectors in each major sector assessed. Hence, some of the sub-sectors are given different weights for their significant profile in each country. Additionally, the final rating for each sector in each specific country is assigned based on a relative calculation comparing this sector to all other sectors in this country.

SECURITY INVESTMENT RATINGS: We combine intrinsic value, relative valuation, and market sentiment into a single rating. Our three-pronged methodology involves (1) discounted cash flows "DCF" valuation model(s), (2) relative valuation metrics, and (3) overall sentiment. Whenever possible we attempt to apply all three aspects on the issuers or securities under review. In certain cases where we do not have our own financial and valuation models, we attempt to scan the market for other analysts' value estimates and ratings (i.e. consensus view) on average. We compliment this with relative valuation and sentiment drivers, such as positive/neutral/negative news flows. For all issuers/securities covered, we have three investment ratings (Buy, Hold, or Sell), comparing the security's expected total return (including both price performance and expected cash dividend) over a 12-month period versus its Required Rate of Return "RRR" as calculated using the Capital Asset Pricing Model "CAPM" and adjusted for the Risk Rating we attach to each security. Our price targets are subjective and are estimates of the analysts where the securities covered will trade within the next 12 months. Price targets can be derived from earnings-based valuation models (e.g. Discounted Cash Flow "DCF"), asset-based valuation models (e.g. Net Asset Value "NAV"), relative valuation multiples (e.g. PER, PBV, EV/EBITDA, etc.), or a combination of them. In case we do not have our own valuation model, we use a weighted average of market consensus price targets and ratings. We review the investment ratings periodically or as the situation necessitates.

SECURITY RISK RATINGS: We assess the risk profile of each issuer/security covered and assign one of three risk ratings (High, Moderate, or Low). The risk rating is weighted to reflect different aspects specific to (1) the sector, (2) the issuer, (3) the security under review, and (4) volatility versus the market (as measure by beta) and versus the security's average annualized standard deviation. We review the risk ratings at least annually or as the situation necessitates.

Other Disclosures

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	If Total Return is ...	Risk Rating		
		Low (1)	Moderate (2)	High (3)
Investment Rating	Buy (B)	Higher than RRR	Higher than RRR	Higher than RRR
	Hold (H)	Between RRR and 20% of RRR	Between RRR and 40% of RRR	Between RRR and 60% of RRR
	Sell (S)	Lower than 20% of RRR	Lower than 40% of RRR	Lower than 60% of RRR
	Not Rated (NR)	We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations).		
	Not Covered (NC)	We do not currently cover this stock or we are restricted from coverage for regulatory reasons.		

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