



CMP/AUG/2016/0010
13th August 2016

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: GFH’s Board of Directors Resolves De-listing from KSE

GFH Financial Group (“GFH”) would like to inform the shareholders and the markets that its Board of Directors has met today, Saturday 13th August 2016, and has resolved to de-list GFH from the Kuwait Stock Exchange (KSE) as it has deemed that resuming listing in the KSE as unfeasible due to the conflicting regulatory requirements of the Capital Markets Authority of Kuwait and the Central Bank of Bahrain, and the binding and compulsory regulatory requirements of the Kingdom of Bahrain, GFH’s home regulator.

This resolution has been issued pursuant to the delegation granted to GFH’s Board of Directors by the Extraordinary General Meeting (EGM) on 12th April 2015 whereby the Board were given the authority to re-consider the continuity of GFH’s listing in KSE and to resolve any decisions pertaining to resuming its listing or de-listing. This delegation was not bound by a specific timeframe and no further subsequent decisions were issued to nullify, amend or cancel the delegation to date.

Below are the detailed reasons for such decision:

Reasons for de-listing from KSE

1. First reason: Conflict between the regulatory requirements of Capital Markets Authority-Kuwait (CMA) and the Central Bank of Bahrain (CBB)

As per Article (1.8) of Module 12 on Listing Rules of the CMA Executive Bylaws of Law No. 7/2010 as amended:

“Each Listed Company shall organize and keep books, registers and accounts reflecting detailed and accurate transactions or ownership transfers of the assets of such company, in accordance with International Financial Reporting Standards (IFRS) and the audit standards issued by International Accounting Standards Board (IASB), which are amended from time to time.”

As per Article (61) of the CBB & Financial Institutions Law (“CBB Law”), issued by Decree Law No. 64/2006:

“(a) Every Licencee shall appoint one or more qualified and experienced external auditors for its accounts for every financial year. A prior written approval by the Central Bank will be required before appointing an auditor.”

“(g) The duties of the auditor shall include the preparation of a report on the final accounts. The report shall contain a statement on whether the Licencee’s accounts are correct and reflect the actual state of affairs of the Licencee according to the auditing standards prescribed by the Central Bank ...”

Also, Article 62 (Closing Accounts) of the same Law provides:

“(b) The final accounts shall be prepared in accordance with the requirements of the Central Bank ...”

In addition, as per Rule AU-4.1.1 of Auditing & Accounting Standards (AU Module) of CBB Rulebook Volume 2 with respect to Islamic banks:

“Islamic bank licensees must comply with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). For products and activities not covered by AAOIFI, International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) must be followed.”

The CBB Law and the CBB Rulebook are binding regulations which shall not be violated under any circumstance by any Bahraini Islamic bank. Being a CBB licensee by virtue of the CBB Law and CBB Rulebook Volume 2, GFH is bound to prepare its financial statements and closing accounts in accordance with AAOIFI standards. However, the provisions of Article (1.8) of the above referred CMA Executive Bylaws insist on adopting the IFRS which is in conflict with the binding provisions of the CBB Law governing the business and operations of GFH.

Consequences of the conflicting regulatory requirements:

This conflict in the requirements of the two regulators became evident when the CMA referred GFH to its Disciplinary Board in the Violation No. 21/2016 (CMA 84/2016) for not implementing IFRS in preparing its financial statements for the financial year ended in 2015. On 19th May 2016, the CMA Disciplinary Board issued a warning to GFH as a consequence for not implementing IFRS.

As a background, GFH had on 2nd June 2015 submitted a written request to the CBB, requesting for its approval of CMA’s request to prepare the financial statements in accordance with IFRS. In its response letter dated 14th June 2015, the CBB rejected such request and obliged GFH to adopt AAOIFI standards. Despite the CBB’s rejection, the CMA insisted on its requirements.

Therefore, GFH subsequently resubmitted the same request to the CBB on 12th August and 29th December 2015. The CBB responded on 18th January 2016 by re-affirming its requirement for adopting



AAOIFI explaining that the implementation of IFRS will have serious implications on CBB licensed Islamic banks, thus rejecting GFH's request.

GFH then approached the Chairman of the Disciplinary Board of the CMA, as per its letter dated 21st June 2016, addressing the issue of preparing the financial statements as per IFRS and its conflict with the CBB requirements, but received no response. Simultaneously, GFH sent a letter to the General Manager of KSE on 21st June 2016 to settle the issue, who replied that the issue has been referred to the CMA. GFH received no other response from the latter.

All of the above correspondences and attempts show that GFH has taken all necessary steps and procedures, and has exerted its best efforts to reach a compromise while observing its home regulator's binding requirements and satisfying the CMA/KSE requirements. However, GFH was not able to reach any compromise.

2. Second reason: To avoid legal penalties and disciplinary actions affecting GFH's shares

One of the main reasons for GFH's voluntary de-listing from the KSE is its genuine desire to not violate the requirements of the CBB to avoid any penalties. As per Article (48)/(c) of the CBB Law:

"(c) The Central Bank may amend or revoke a license under paragraph (a) above in any of the following cases:

2- If the licensee violates the terms of this law or the regulations or any of the license rules."

Article (128) on "Imposing Restrictions" of the same Law states:

"The Central Bank may impose upon the Licensees and the listed companies restrictions to secure the compliance by the provisions of this law and the regulations and resolutions issued in implementing thereof, along with the terms and conditions of the License..."

Additionally, Article (129) of the above Law imposes an administrative *fine "not exceeding BD100,000"* in case of breaches to the provisions of the Law, regulations, resolutions or directives issued under the Law, or the terms and conditions of the license. The fine shall be multiplied by the number of violations. Article (131) of the CBB Law provides for the suspension of any of the services provided by the licensee for a period(s) that shall not at all times exceed *"12 months"* in the event of violating any of the provisions of the Law, regulations and Bylaws, or the terms and conditions of its license.

Accordingly, GFH could face any of the above penalties that could reach to the suspension of its license in case of violating any of the CBB's requirements, including in particular adoption of the AAOIFI standards.

In addition, the CMA Executive Bylaws states that the CMA may apply disciplinary penalties such as the suspension of the trading of shares for a period of time, in addition to imposing fines and other penalties in case the listed company violates any of the requirements of its Executive Bylaws.

Therefore, GFH shall be subject to these penalties in case of non-compliance with the accounting standards, both from the CMA and CBB, which will cause unavoidable significant damages to GFH's reputation and shares.

3. Third reason: CMA not activating/applying Article (149) of the CMA Law, as a Memorandum of Understanding has not been signed with the CBB

The provisions of Article (149) of the CMA Law No. 7 of 2010, as amended by Law No. 22 of 2015, with respect to the establishment of the Capital Markets Authority and regulating securities activities ("CMA Law") states the following:

"The Authority may exchange information and documents concerning violations relating to Securities between itself and corresponding authorities in other countries as the Authority may deem appropriate in each case individually, in light of the public interest, subject to applying the principle of reciprocity. The Authority may sign Memoranda of Understanding with corresponding entities and authorities in other counties to coordinate cooperation among them. The Authority may also conclude conventions with corresponding entities and authorities in other countries pursuant to the provisions and procedures stipulated in the Constitution."

As per the above Article, the CMA may conclude Memorandums of Understanding and agreements with the regulatory authorities outside of Kuwait towards resolving contradictory regulatory requirements affecting listed companies.

Clearly, this is a general issue as it is affecting three other Bahraini companies, representing 30% of a total of 11 foreign companies listed on KSE. Therefore, there is an obvious conflict in the regulatory requirements between the CMA and the CBB with regards to the accounting standard to be adopted which necessitates the CMA to conclude agreements with the CBB to resolve such conflict and reach a mutually agreed resolution. However, in spite of the above, no step has been taken by the CMA to implement Article (149) with the CBB.

It is worth mentioning that GFH has raised this issue with the Disciplinary Council of the CMA before but there has been no response to this significant and material issue.

4. Fourth reason: The CMA Law's failure to observe the provisions of Bahraini laws and requirements, and to consider the nature of foreign listed companies in terms of being governed by their local binding laws

GFH is a Bahraini bank which is subject to the regulations of the CBB first and foremost, in addition to the CMA in Kuwait. GFH must comply with the applicable rules of its home country to be able resume its licensed business operations. Should its license be suspended by the CBB, GFH shall not have any legal presence in KSE for lacking one of its listing requirements.



As the provisions of the laws of the CBB supersede the regulations of the CMA as they are deemed as administrative resolutions, the requirements to follow AAOIFI accounting standards as per Articles (61 and 62) and Rule AU-4.1.1 of the CBB are binding provisions with prevalence over the CMA Executive Bylaws.

It is imperative for the various regulatory authorities of the listed companies to coordinate among themselves in order to enable listed companies to fulfill their respective obligations towards all regulators without arising any conflicts.

Therefore, as the CMA Executive Bylaws do not observe GFH's legal and fiduciary liability and obligation to abide by the CBB laws and regulations, GFH has no other choice in order to safeguard its license but to voluntarily withdraw from KSE to avoid conflicts and related consequences.

The above are the main reasons and justifications that have enforced GFH to take its decision to de-list from KSE.

Yours Sincerely,

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

Nabeel Mirza
Compliance Director & MLRO