



CMP/NOV/2019/0023

14<sup>th</sup> November 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's Webcast for Q3 2019 Financials**

Further to GFH's market notification dated 12<sup>th</sup> November 2019 on the subject, GFH is pleased to inform its shareholders and the markets about the successful live webcast session which was broadcasted online, Thursday, 14<sup>th</sup> November 2019, 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 'Nabeel Mirza', enclosed within a blue oval scribble.

**Nabeel Mirza**

Head of Compliance



## **GFH Financial Group Reports Third Quarter 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 third quarter of 2019.

The Management is pleased to reiterate that GFH Financial Group have seen a continuous positive momentum across our business lines in 2019 which has significantly improved our quality of income compared to the previous year and are delivering on the strategy we set at the beginning of the year.

We are pleased to present to you the Group's financial results for the nine months of 2019, which have marked another period of profitability and contributions from across business lines.

Let me start the session with the key performance highlights from the income statement for the first nine months of 2019.

- Total operating income of the Group was US\$254m for the nine months of 2019 compared to US\$205.3m, an increase of 23.7%. This increase is primarily driven by the increased contribution from Investment banking, Treasury, and Real Estate business lines. Excluding the one-off recovery income and restructuring income in the first nine months of 2018, total income of the Group for first nine months of 2019, grew by 72.2% compared to the comparative period.
- Total operating expenses of the Group was US\$70.2m for the first nine months of 2019 compared to US\$71.0m for the comparative period, a decrease of 1.1%.
- Finance expenses of the Group increased from US\$24.8m for the first nine months of 2018 to US\$84.7m for the first nine months of 2019. An increase in the money market as part of the Group's growing treasury portfolio and increased revenue generation from that business line also led to an increase in related costs.
- Net profit attributable to the shareholders of the Bank for the first nine months of 2019 was US\$73.6m compared to US\$103.4m for the comparative period in 2018, a decrease of 28.8%. For the first nine months of the year, 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 second and third quarter of 2019. However, excluding the one-off recovery income and restructuring income in the first nine months of 2018, net profit attributable shareholders grew by 61.4% in first nine months of 2019.
- Impairment provisions for the Group stood at US\$28.4m for the nine months of 2019 compared to US\$9.5m for the comparative period in 2018, primarily from the commercial banking subsidiary of the Group.
- Earnings per share decreased in first nine of 2019 to 1.99 US cents from prior period level of 2.91 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 \$6.1bn at 30 September 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 \$3.8bn at 30 September 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 30 September 2019 is \$2.0bn compared to \$1.0bn at 31 December 2018, 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 2.21x and a net leverage ratio of 1.21x.
- Equity attributable to shareholders of the Bank was \$1.07bn at 30 September 2019 compared to \$1.06bn at 2018 year end.

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

- Investment banking contributed 31.1% 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 20.1% 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 16.3% of the total income
- Real estate contributed 7.8% of the total income for the first nine months of 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 legacy investments and credit book.

The results for the first nine months of 2019 reflects the contribution from the different business lines of the Group that has and will drive the growth during the various quarters. We have an exciting pipeline of both regional and international transactions, which will be presented to our investors during coming quarters of 2019.

GFH's results for the first nine months of 2019, which translate into an annualised return on equity of 9.1%, are a testament to the enduring success of the strategy adopted by the Group.

Strong and consistent growth across the Bank's core business lines continues to deliver solid results and steady improvements in income generation. We expect all of our business lines to continue their strong performance and look forward to strong results, improved profitability and returns for our shareholders.

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



**Questions & Answers:**

**Question 1:**

Can you please explain the sharp rise in the finance expenses?

**Answer 1:**

This is part of the Treasury business line and GFH has been successful in raising money market funds which lead to the increase in the finance expenses.

**Question 2:**

Commercial Banking when do you expect the Provisions to stop?

**Answer 2:**

Given the global and regional challenges and prudent provisioning policy, commercial banking has not performed as expected.



# GFH Financial Group 9M/3Q 2019 Financial Performance

## Presentation to Investors and Analysts

14 November 2019

# 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.

## Forward-looking statements

This presentation and subsequent webcast may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group (together, “Forward-Looking Statements”). Any such Forward-Looking Statements are not a reliable indicator of future performance, as they may involve significant assumptions and subjective judgments, which may or may not prove to be correct, and there can be no assurance that any of the matters set out in Forward-Looking Statements are attainable, will actually occur or will be realized or are complete or accurate. Forward-Looking Statements are statements about the future and are inherently uncertain and generally based on stated or implied assumptions. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any Forward-Looking Statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). Any such Forward-Looking Statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update them if circumstances or management’s beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any Forward-Looking Statements.

# Highlights of Financial Performance



Shareholders profit of USD 24.4m for Q3 2019 (decrease of 21% compared to Q3 2018) and USD 73.6m for 9M 2019 (decrease of 29% compared to 9M 2018)

Consolidated profit of USD 21.8m for Q3 2019 (decrease of 30% compared to Q3 2018) and USD 70.2m for 9M 2019 (decrease of 33% compared to 9M 2018)

Operating income of USD 254m for 9M 2019 (increase of 24% compared to 9M 2018) and USD 90.5m for Q3 2019 (increase of 27% compared to Q3 2018)

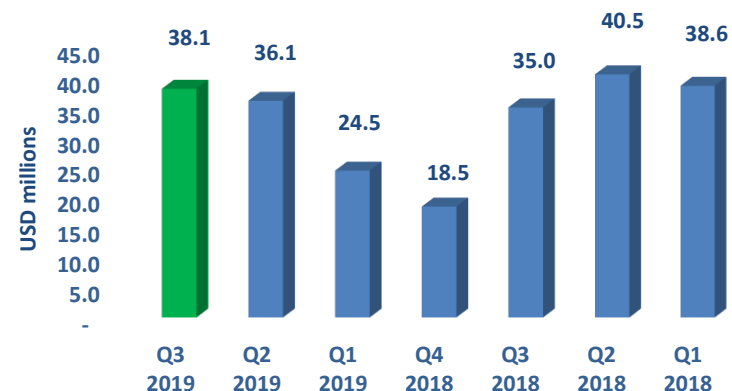
Consolidated profit before provisions of USD 38.1m for Q3 2019 (increase of 8% compared to Q3 2018) and USD 98.7m for 9M 2019 (decrease of 13% compared to 9M 2018)

Excluding one-off recovery income and restructuring income, net profit attributable to shareholders grew by 61.4% in 9M 2019

## Net profit to shareholders



## Net profit before provisions



# Highlights of Financial Performance



Consolidated operating expenses for 9M 2019 of USD 70.2m was marginally lower than 9M 2018 expenses of USD 71m

Finance expenses for 9M 2019 of USD 84.7m was 241% higher than comparative period due to increased money market activities

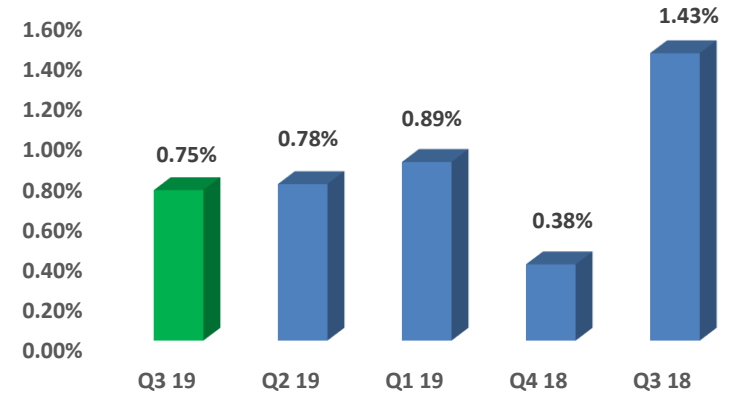
Impairment provisions from KHCB of USD 28.4m for 9M 2019 was 3 times higher than the comparative period

Consolidated assets increased to USD 6.1 billion from USD 5.0 billion from December 2018 (increase of 22%) primarily from increase in liquid assets deployment of money market funds

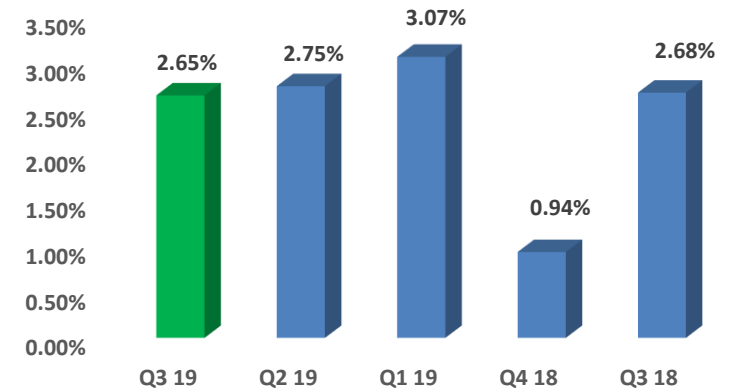
Consolidated liabilities increased to USD 3.8 billion for Q3 2019 from USD 2.7 billion (increase of 41%) primarily from receipt of money market funds

Market capitalization of USD 880m at 30 September 2019, Book value per share of AED 1.06/share with P/B ratio of 0.83x

## Return on Assets



## Return on Equity





# Income statement



USD m

	9M 2019	Q3 2019	H1 2019	9M 2018
Investment banking	79.0	35.6	43.4	33.4
Commercial Banking	52.4	14.5	37.9	39.4
Proprietary and co-investment	41.4	1.4	40.0	53.9
Real Estate Income	19.9	5.1	14.8	7.0
Treasury and Other income	61.3	33.9	27.4	71.6
<b>Total income</b>	<b>254.0</b>	<b>90.5</b>	<b>163.5</b>	<b>205.3</b>
Finance Expenses	84.7	31.0	53.7	24.8
Other Operating Expenses	70.2	21.4	48.8	71.0
<b>Profit prior to impairment allowance</b>	<b>99.1</b>	<b>38.1</b>	<b>61.0</b>	<b>109.5</b>
Provision for Impairment	28.4	16.3	12.1	9.5
<b>PROFIT FOR THE PERIOD</b>	<b>70.7</b>	<b>21.8</b>	<b>48.9</b>	<b>100.0</b>
Profit/(Loss) from Discontinued Operations	(0.4)	-	(0.4)	4.6
Non-Controlling Interest	(3.3)	(2.6)	(0.7)	(1.2)
<b>NET PROFIT TO SHAREHOLDERS</b>	<b>73.6</b>	<b>24.4</b>	<b>49.2</b>	<b>103.4</b>

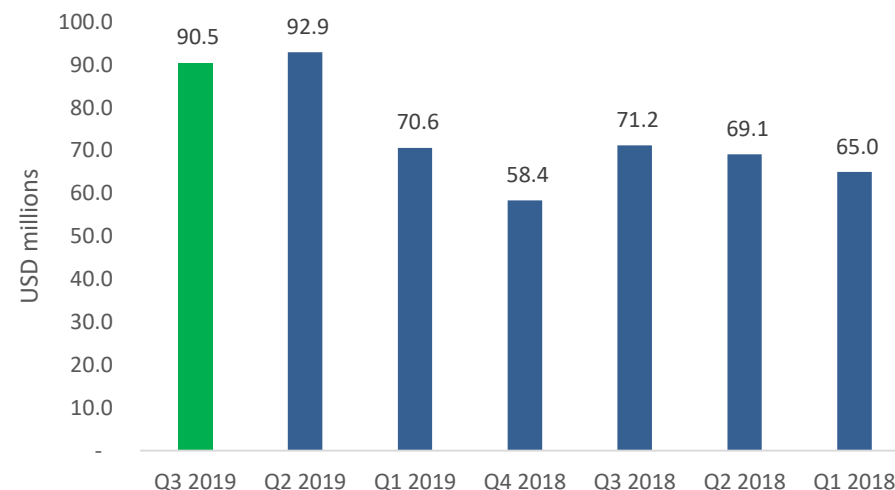
9M 2018 had one off restructuring, settlement and recovery income of USD 102.8m.  
Excluding this, income has increased by 148% in 9M 2019





- Increase in total operating income primarily driven by the contribution from Investment banking, Treasury, and Real estate business line
- Increase in the finance expenses by 241.5% due to the increased money market activities during the period
- Investment Banking major contributions from placement of 2 Funds.
- Treasury income is from inter bank placements, Sukuks and structured notes
- Real estate contribution for 9m 2019 primarily from the sale of units in Harbour Row
- Impairment provisions for the Group stood at USD 28.4m for 9m of 2019 compared to USD 9.5m for the comparative period in 2018, an increase of 199%, primarily from the commercial banking subsidiary of the Group

## Total Revenues



	9M 2019	9M 2018	Variance
Total operating income	254.0	205.3	23.7%
Total operating expenses	70.2	71.0	1.1%
Total finance expenses	84.7	24.8	241.5%
<b>Net profit to shareholders</b>	<b>73.6</b>	<b>103.4</b>	<b>28.8%</b>
Consolidated profit	70.2	104.7	33.0%



# Statement of financial position



USD m

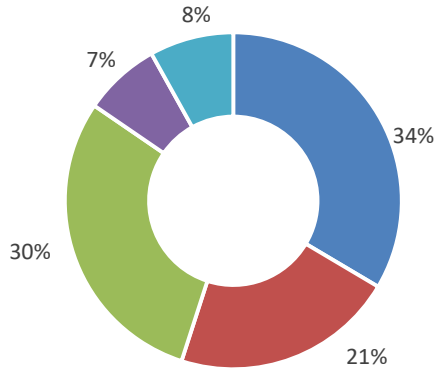
	Sep 2019	Jun 2019	Mar 2019	YE 2018	9M 2018
Cash and bank balances	401.9	369.6	541.9	341.6	277.0
Treasury portfolio	1,655.8	1,682.4	1,477.2	818.0	534.7
Financing assets	1,316.7	1,300.2	1,272.6	1,208.9	1,177.5
Real estate investment	1,815.8	1,821.4	1,824.9	1,840.0	1,770.3
Proprietary investment	276.5	279.0	271.3	234.0	235.6
Co-Investments	74.4	77.0	77.6	77.6	80.0
Assets held-for-sale	101.2	101.2	147.1	147.1	-
Receivables & prepayments	471.4	482.3	269.5	229.1	264.1
Property and equipment	24.6	24.7	24.1	92.9	92.5
<b>Total Assets</b>	<b>6,138.3</b>	<b>6,138.0</b>	<b>5,906.2</b>	<b>4,989.2</b>	<b>4,431.7</b>
Clients' funds	74.5	61.1	41.0	46.6	25.1
Placements from FI & non-FI	2,675.4	2,790.0	2,598.1	1,628.4	1,119.7
Customer current accounts	169.4	163.7	161.5	177.9	160.3
Term financing	268.0	200.0	238.2	256.2	260.1
Liabilities associated with assets held for sale	39.9	39.9	42.7	42.7	-
Payables and accruals	526.9	507.9	468.3	517.9	534.0
<b>Total Liabilities</b>	<b>3,754.1</b>	<b>3,762.4</b>	<b>3,549.9</b>	<b>2,669.7</b>	<b>2,099.2</b>
<b>EIAH</b>	<b>971.5</b>	<b>995.8</b>	<b>947.2</b>	<b>896.9</b>	<b>916.5</b>
<b>Total Equity attributable to shareholders of Bank</b>	<b>1,072.5</b>	<b>1,036.8</b>	<b>1,048.4</b>	<b>1,058.8</b>	<b>1,088.7</b>
Non-controlling interest	340.2	343.0	360.8	364.0	327.3
<b>Total Liability, EIAH &amp; Equity</b>	<b>6,138.3</b>	<b>6,138.0</b>	<b>5,906.2</b>	<b>4,989.4</b>	<b>4,431.7</b>

- Increase in total assets primarily from increase in liquid assets from USD 614m at 2018 to USD 1.57bn at end of Q3 2019
- Increase in total liabilities primarily from increase in money market funds raised by the Bank. Money market funds raised by the Bank at 30 Sept 2019 is \$2.1bn compared to \$1.1bn at 31 December 2018
- Equity attributable to shareholders of the Bank is at \$1.07bn at 30 Sept 2019 translating into a book value per share of AED 1.06/share.





## Asset distribution

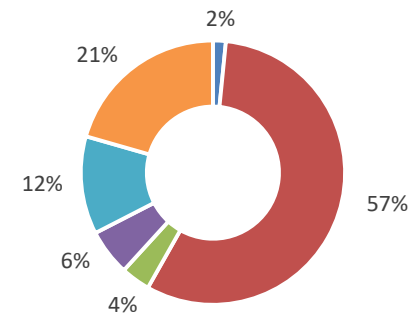


- Liquid assets
- Financing assets
- Real estate investment
- Proprietary investment
- Receivables & prepayments

- Asset distribution has remained constant during the year 2019 with liquid assets dominating the mix along with real estate assets
- Total assets have increased by 23% during 2019 primarily from inflow of funds received for money market funds

- Liabilities distribution has remained constant during the year 2019 with money market funds dominating the mix


## Liabilities distribution



- Clients' funds
- Placements from FI & non-FI
- Customer current accounts
- Term financing
- Payables and accruals
- Equity of investment account holders



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Thank you  
Q & A