



CMP/NOV/2018/0012

14<sup>th</sup> November 2018

**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 Financial Group Webcast for Q3 2018 Financials**

Further to GFH's market notification dated 13<sup>th</sup> November 2018 on the subject, GFH is pleased to inform its shareholders and the markets about the success of the live webcast session which was broadcasted online today, Wednesday, 14<sup>th</sup> November 2018, at 2 p.m. Kingdom of Bahrain time.

Attached herein is 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-Q3-2018-Financial-Results-Presentation-vF.pdf>

Yours Sincerely,

A handwritten signature in blue ink, appearing to be 'Nabeel Mirza', enclosed within a blue oval shape.

**Nabeel Mirza**

Senior Director Compliance & MLRO



## GFH Q3 2018 Financial Results

### Attendees from GFH Financial Group:

- **Mr. Salem Patel (Senior Executive Director, Financial Planning)**

Good afternoon ladies and gentlemen and welcome to GFH Financial Group's financial results presentation for the quarter ended September 2018. My name is Salem Patel, Senior Executive Director, Financial Planning, and I will be taking you through, our performance for the most recent quarter.

We are pleased with the excellent results we have delivered in Q3, despite continuing macroeconomic and geopolitical challenges in the markets where GFH is active.

The Group is effectively seeing the fruits of the strategy it adopted in previous years, which has resulted in the growth of our revenue streams. Consequently, we have established a strong portfolio across all of our business lines and the improvement in our performance and profitably underscores the quality of our team and investment portfolio.

Net profit attributable to shareholders for the third quarter of 2018, increased 23.3% to US\$30.9 million from US\$25.1 million for the comparable period in 2017. For the nine months ended 30 September 2018, GFH reported net profit attributable to shareholders of US\$103.4 million compared with US\$87.2 million for the first nine months of 2017. These results, in real terms, reflect year-on-year growth in most areas of the business, with a growth in total income of 13.2% and growth in net profit attributable to shareholders of 18.6%, when compared to the first nine months of 2017.

We believe the results, which translate into an annualized return on equity of 12.7%, are a testament to the success of the strategy adopted by the Group and this strategy will continue to drive our future performance.

The Group also has a strong cash and liquid assets position of \$384 million as of 30 September 2018. Our capital adequacy, with dispensation, is a robust 21.7% compared to a minimum regulatory requirement of 12%, which provides GFH with the opportunity to grow its businesses further.

Most business lines across the Group have delivered strong performances during the first nine months of the year, 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 \$61.0 million in the first nine months of 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 and a trophy real estate assets in Chicago as well as the Diversified US Office Portfolio.

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 investment in Chicago and Diversified US office portfolio, are anticipated to generate favourable returns to investors averaging an annual cash on cash yield of 9% and IRR of 12%.

Furthermore, the Group is currently bringing to market an attractive UK-based opportunity.

Other existing investments in US real estate similarly delivered strong returns, with our industrial asset portfolio generating a weighted average cash-on-cash return exceeding 9% for our investors. We continue to remain bullish on the US real estate market as we see value opportunities in various sub sectors of the market.

Furthermore, investment banking income includes net income from investment securities during the first nine months of \$26.3 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.

We expect this strong core operational performance to continue, enabling the Group to deliver strong results during the remainder of 2018 and beyond 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 in the coming months.

Moving on, GFH Properties also 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 50% completion and the first phase of sales saw more than 40% of offered stocks sold within a 18 month period.

Based upon percentage of completion, the Group has realized income of \$4.9 million in the first nine months of 2018 for the Harbour Row project, and expects further income in subsequent quarters.

During Q3, 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, of which \$45 million has been recognized and was the main driver of this quarter's performance. The balance gain of US\$ 33 million is deferred pending completion of contractual milestones and is expected to be realized in the 4<sup>th</sup> quarter.

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.

In addition, the Group realized income of \$35 million in Q1 2018 related to the restructuring of liabilities of a subsidiary.

In Commercial Banking, our subsidiary Khaleeji Commercial Bank continued its record of profitability even when faced with significant headwinds, reporting total income of \$38.0 million versus \$44.5 million during the nine months of 2017.

Financing assets remained flat compared to September 2017 to reach USD 1.1 billion. Similarly, customer deposits remained stable compared to September 2017 at USD 1.4 billion, resulting in an improved loan / deposit ratio of 82% in September 2018 compared to 90% in September 2017.

The difficult operating and macro environment that Khaleeji is currently facing meant a drop in net profit to shareholders of \$4.6 million in the nine months of 2018, versus \$11.0 million in the nine months of 2017.

However, KHCB maintained a strong capital adequacy ratio of 17.3% at the end of the quarter. 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 US\$235 million in cash to shareholders by way of paying dividends and share buybacks in the last two years.

The commitment to delivering shareholder value will remain a key focus throughout the remainder of 2018 and beyond as the Group anticipates continuing its treasury share buyback program subject to the Central Bank of Bahrain's approval.

To conclude, the first 9 months of 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 the last quarter of the year in a solid position, we look forward to strong year-end results and 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 news regarding GFH's treasury shares buyback scheme?

**Answer:** We currently have approval from the Central Bank of Bahrain to acquire up to 5% of treasury shares and we are seeking approvals to acquire a further 5% of shares. Once that approval is granted, we will inform the market accordingly.

**Question:** What is the current status of the proposed sale of GFH's real estate portfolio?

**Answer:** We are still in discussions with the counterparty, and once there is further updates, we will be updating the markets accordingly.

**Question:** What are your expectations for year-end and beyond?

**Answer:** We expect to be in line with publicly available forecasts on 2018 results. With regards to 2019 guidance, we expect to provide growth on 2018 results.

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