



CMP/AUG/2018/0011

14th August 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 Q2 2018 Financials

Further to GFH's market notification dated 12th August 2018 on the subject, GFH is pleased to inform its shareholders and the markets about the successful live webcast session which was broadcast online today, Tuesday, 14th August 2018, at 3 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:

<http://gfh.com/wp-content/uploads/GFH-H1-2018-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 Q2 2018 Financial Results

Attendees from GFH Financial Group:

- **Mr. Salem Patel (Acting Chief Financial Planning Officer)**

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

We are pleased with the excellent results we have delivered, despite continuing macroeconomic and geopolitical challenges in the markets where GFH invests. We are also hopeful that with the strong foundations we have built, and the strategies adopted, we will be well placed to capitalize on higher oil prices and stronger GDP forecasts that have provided the region with greater optimism for 2018 compared to previous years.

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 strategic investments.

Net profit attributable to shareholders for the second quarter of 2018 increased 19.2% to US\$36 million from US\$30.2 million for the comparable period in 2017. For the first half ended 30 June 2018, GFH reported net profit attributable to shareholders of US\$72.5 million compared with US\$62.1 million for the first half 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 9.5% and growth in net profit attributable to shareholders of 16.7%, when compared to H1 2017

We believe the results, which translate into an annualized return on equity of 13.0%, are a testament to the success of the strategy adopted by the Group and this strategy will continue to drive our future performance.

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

GFH's capital adequacy is a robust 14.5% as at 30 June 2018 compared to a minimum regulatory requirement of 12%, which provides GFH with the opportunity to grow its businesses further.

Coming to individual business lines at the Group, in the investment banking business, GFH recorded strong investment banking income levels of \$31.6 million in H1 2018.

This income has been positively impacted primarily by the Group's role in launching new investment opportunities and placing them during the 2nd quarter, including our landmark investment in the UAE-based Entertainer and a notable trophy real estate asset in Chicago.

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%. The company will be a key private equity investment in which GFH along with its clients will invest throughout the holding period up to US\$150 million. GFH has signed an investment agreement with Al-Futtaim and Al Zarooni Emirates Investments, who have acquired a significant minority stake in the Company alongside GFH. Mr. Jassim Al Siddiqi has been appointed as the Chairman of the Entertainer.

Also in the second quarter of 2018, GFH successfully acquired two class A trophy office buildings in Chicago, known as Central Park of Lisle. The investment is anticipated to generate favourable returns to investors averaging an annual cash on cash yield of 9% and IRR of 12%.

This follows the successful acquisition and placement of the Diversified US Office Portfolio in the first quarter, which is anticipated to distribute an attractive cash on cash yield of 9% to GFH's investors.

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. We are also looking at selective opportunities in the UK commercial real estate market.

We expect this strong core operational performance to continue, enabling the Group to deliver strong results during 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 2018 and beyond

Moving on to GFH Properties, which was launched in 2016 as the dedicated real estate development arm of the Group, also continued to advance key landmark projects across the GCC, MENA region and India in 2018 and build and enhance the value of its assets.

Looking at the Group's Bahrain projects, the Harbour Row project located in the Bahrain Financial Harbour, made significant progress in 2017 and the early parts of 2018. Onsite works reached approximately 45% completion and the first phase of sales saw more than 40% of offered stocks sold within a 1.5 year period.

Based upon percentage of completion, the Group has realized income of \$4.4 million in H1 2018 for the first time from the Harbour Row project, and expects further income in subsequent quarters.

In the UAE, California Village, a mixed-use development and gated community located in Dubailand, further progressed in 2017 and the early parts of 2018. Following mobilization, site work has moved swiftly ahead. A full marketing strategy has been developed in 2017 and is now being finalized in support of the offering of built units for sale in 2018.

Further highlights for the quarter include the Group reaching a cash settlement with regards to one of its legal claims for an amount of \$22.5 million

This is In addition, to the Group realizing income of \$35 million in Q1 2018 related to the restructuring of liabilities of a subsidiary acquired in 2016 as part of the recoveries made by the Group under litigation settlements in 2016.

In Commercial Banking, our subsidiary Khaleeji Commercial Bank continued its record of profitability even when faced with significant headwinds, reporting total income of \$26.1 million versus \$31.5 million during H1 2017.

Financing assets remained flat compared to June 2017 to reach USD 1.2 billion. It should be noted that during the year Khaleeji Commercial Bank avoided high concentration accounts, resulting in a decrease of 16% in deposits during the year from \$1.5 billion in June 2017 to \$1.3 billion in June 2018. The loan / deposit ratio increased from 83% in June 2017 to 94% in June 2018.

The difficult operating and macro environment that Khaleeji is currently facing meant a drop in net profit to shareholders to \$3.7 million, versus \$8.1 million in H1 2017.

However, KHCB maintained a strong capital adequacy ratio of 16.5% 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 over US\$240 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, late 2017 and the first two quarters 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 H1 2018; however this was more than compensated by the growth in our Investment Banking and Real Estate businesses. We have also consolidated Gulf Holding during the quarter and expect this subsidiary to contribute to the Group in the coming periods.

In the remainder of 2018, we expect all 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 is expecting to realize further cash flows and profitability for the Group, and the Commercial banking business looks 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.