



IIRA Reaffirms Fiduciary Ratings of GFH Financial Group B.S.C.

Manama, December 11, 2019 – Islamic International Rating Agency (“IIRA”) has reaffirmed the international scale ratings of GFH Financial Group B.S.C. (“GFH” or “the Group”), incorporated in the Kingdom of Bahrain (“Bahrain” or “the country”) at ‘BB / B’ (Double B / Single B). At the same time, national scale ratings have been maintained at ‘BBB-(bh) / A3(bh)’ (Triple B Minus / A Three). Outlook on the assigned ratings are ‘Stable’.

GFH is licensed as a wholesale Islamic Bank by the Central Bank of Bahrain (“CBB”). The Group’s key business lines include investment banking, real estate development, the recently expanded treasury and proprietary investments, and commercial banking undertaken through its 55.4% holding of Bahrain - based Khaleeji Commercial Bank (“KHCB”). A large element of the Group’s investments book is real estate assets that are at various stages of development, although this concentration is reducing with a recent buildup of investment in treasury products and increasing investments in volatility resistant sectors – including education and healthcare, through its Investment Banking platform. GFH has also been able to achieve successful exits from some of its real estate projects, thereby benefitting from appreciation.

The assigned ratings take positive note of the Group’s association with UAE-based Abu Dhabi Financial Group (“ADFG”) as a controlling shareholder.

GFH registered an improvement in returns on the back of the growing treasury operations in the interim periods of 2019 when compared with core earnings in 2018. Concurrently, the Group’s balance sheet leverage has trended up during recent reporting periods, due to increase in money market funding as well leverage against liquid assets.

The Group’s Capital Adequacy Ratio reduced to 14.48% at Q3’19, still comfortably above the CBB minimum of 12.5%; despite increased exposure to real estate assets and reduced internal capital generation owing to increased treasury share buy-backs and dividend distributions. It should also be noted that the Group is in the process of raising more medium-term funding over the coming quarters, which is expected to allow for a better matched maturity profile of assets and liabilities, and underpins IIRA’s expectation of improvement in the emerging liquidity risk profile of the Group.

Macroeconomic conditions in some of the Group’s project jurisdictions have posed challenges. The Group’s local retail banking subsidiary operations have also showed slower business growth coupled with higher asset delinquencies and weaker profitability metrics during 2018 and

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided "as is" without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

H1'19. However, cost rationalization measures among other strategies are expected to result in boosting of profitability over the coming periods.

Outlook on the assigned ratings has been maintained at 'stable', reflective of the likely liquidity upside with the Group's expected medium-term funding plan over the coming quarters.

IIRA has assigned the Group an overall fiduciary score in the range of '61-65', reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. Strong regulatory infrastructure in Bahrain underpins the Group's internal governance framework. The Group is in the process of enhancing its policy framework including risk assessment capabilities. Financial reporting is deemed satisfactory while transparency may be considered to be further enhanced by the Group. The Group's Shari'a governance framework complies with the CBB requirements.

For further information on this rating announcement, please contact IIRA at iira@iirating.com.

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided "as is" without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.