Company Update

March 31 2024

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GFH Financial Group

Supportive IB segment and recovering banking performance key to RoE improvement

- **FY revenues expanded by 24% y/y, with assets and earnings at + 14%, with Q4 supported by strong IB activity. The income mix continues to improve. RE exposure is limited to 12% of assets following the transfer of most of its RE assets to Infracorp in FY22, keeping a 40% stake. We expect the bank contribution to increase on rate cuts, given a favourable ALM gap between assets and liabilities.**
- **Capital ratios improved, with CET1 reaching 19.8% and CAR at 21.0%, benefiting from a 33% CRWA reduction despite a relatively high asset/equity ratio of 10.4x. We also see significant hidden value in the real estate portfolio of USD 122m, albeit mostly comprised of land assets.**
- **The stock trades at 1.1x P/tNAV 24e vs a RoE of 10% in FY23. Next catalyst: Potential listing in KSA, expanding IB platform and recovering commercial banking performance.**

Sustainable growth and earnings resilience. GFH is a Bahrain-domiciled Sharia-compliant financial group focusing on investment banking, treasury activities, and commercial and retail banking via its 85.14% owned subsidiary Khaleeji B BSC (Khaleeji) and proprietary investments. Management has de-risked the business towards more stable and recurring revenue sources, such as fees and lower-risk, lower-return investments, and reduced its real-estate concentration in FY22. Khaleeji offers a resilient earnings stream, driving 21% of group profits in FY23. Nonetheless, it remains dependent on transactional gains for a significant share of its revenues. However, we see those gains as highly recurring.

EPS growth momentum continues in FY23, mainly thanks to a strong IB performance, despite the negative impact of higher borrowing costs. The IB division continues to bolster GFH's performance, +67% y/y, as the group successfully closed eight business deals throughout the year while exiting its US Student Housing portfolio and realizing 10.4% ROI following two years of investment periods. Nevertheless, this was partially offset by i) subdued commercial banking and treasury/prop investments' performance, 0% and -6%, respectively, due to the higher rate environment, and ii) higher OpEx (+23%), finance expense (+28%) and impairments (+6x). As a result, EPS growth reached 14% y/y. As we advance, we expect EPS growth to reach 13% in FY24e on the back of a healthy IB pipeline, recovering treasury and commercial banking performance thanks to a favourable ALM gap.

Ambitious targets on track. GFH continues to expand its assets and AUM base, reaching USD 21.1bn in FY23 vs. 17.6 in FY22. GFH is on track to achieving its USD 25bn target by YE25e, through organic and inorganic growth, reflected by the launch of GFH Partners, a dedicated global real estate investment arm with currently USD 6bn in assets across US and Europe. We expect a revenue CAGR FY24-28e of 12%, an operating profit growth of 19%, and EPS CAGR of 17%, with RoE gradually improving from 10.4% in FY23 to 15.8% in FY28e and RORWA from 1.98% to 2.39%.

A provision deficit is more than offset by revaluation gains on real estate holdings. The valuation of real estate is mainly at cost, and we identify a USD 122m mark-to-market gain on the property investment book (8% of our FV) that is not reflected in GFH's shareholders' equity (2.4% of RWAs), albeit mainly comprising land assets. We identify a provision deficit of USD 51m vs our standard stress test of 1% coverage on stage 1 loans, 12% on stage 2, and 60% on stage 3. However, the collateral is substantial, increasing total stage 2 coverage to 68.4% from 8.2% YE 23 and stage 3 coverage to 40.7% from 30.6%. We expect a mid-cycle CoR of 80bps CoR.

Substantial capital and liquidity position, supported by a 33% reduction in CRWAs. GFH's capital improved significantly in FY23, with CET1/T1 and CAR reaching 19.8% and 21.0%, respectively, compared to 14.0% and 14.7% in FY22, thanks to a 33% reduction in CRWAs reflecting a de-risked loan book exposure and Basel recalibrations, despite higher MRWAs and operational risk. The leverage is high vs GCC banks, with an asset/equity ratio of 10.4x (vs. 9.1x in FY22 and 6.9x in FY21), supportive of the TTC RoE. Liquidity on a group basis is strong, with an LCR of 233% and NSFR of 148%.

Better earnings resilience and a growing AUM base still need to be reflected in pricing. The stock trades at 1.1x P/tNAV while offering RoE of 11.4% and still does not fully recognise the company's de-risking, the enhanced focus on RoE and the limited intangibles on the bank's balance sheet. The Bahraini banking sector trades at 1.4x. We set an EVA-derived TP of AED 1.51 for the stock, offering 38% upside.

BUY USD 0.41/ AED 1.51/ Kwd 0.13

Banks / BAHRAIN

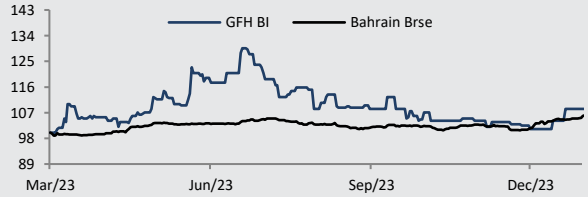
Bloomberg code	GFH BI/ GFH UH/ GFH KK
Market index	Bahrain Brse/ DFM/ ADX/ Boursa Kuwait
Target Price	USD 0.41/ AED 1.51/ Kwd 0.13
Upside (%)	37.9

Market data 3/28/2024

Last closing price	0.30
52 Week range	0.2-0.3
Market cap (USD m)	1,161
Free float (%)	92%

Year-end (local m)	2022	2023	2024e	2025e
Revenue	221	273	294	334
Pre-provisioning profit	73	91	116	147
EPS	0.02	0.03	0.03	0.04
P/E (x) (mkt price)	12.7	11.2	9.9	8.2
BVPS	0.3	0.3	0.3	0.3
Tangible BVPS	0.3	0.3	0.3	0.3
P/B (x) (mkt price)	1.2	1.2	1.1	1.0
P/TBVPS (x) (mkt price)	1.2	1.2	1.1	1.0
DPS	0.02	0.02	0.02	0.02
Div. yield (%)	5.3	5.3	5.6	6.6
RoAA (%)	1.0	1.0	1.0	1.1
RoRWA (%)	1.2	2.0	1.7	1.9
RoATE (%)	9.2	10.4	11.4	12.9
RoEcC (%)	9.7	14.0	12.9	14.6
RAROC (%)	9.4	14.0	12.9	14.9
Net LtD ratio (%)	106.7	42.1	43.0	42.9
Risk Weighted Assets (bn)	7.3	5.2	6.9	7.4
Core Equity T1 ratio (%)	13.9	19.6	17.1	17.0
Tier 1 capital ratio (%)	14.0	19.7	17.2	17.1
Total capital ratio (%)	14.7	21.0	18.1	18.0
NPL ratio (%)	3.5	7.9	8.0	8.0
Coverage ratio (%)	124.4	56.8	56.6	58.7
Number of shares	3,833	3,833	3,833	3,833

Price Performance



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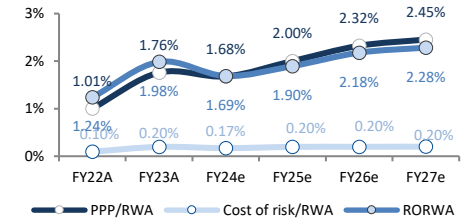
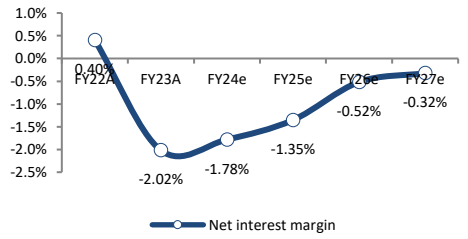
Abacus *Arqaam Capital Fundamental Data*

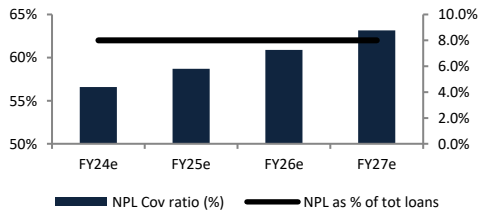
Profitability



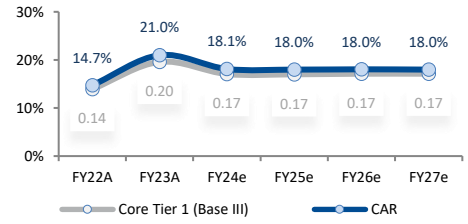
NIM



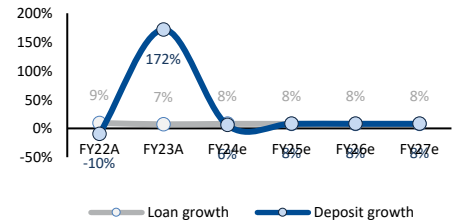
Credit Quality



Capital Ratios



Growth



GFH Financial Group

Year-end	2022	2023	2024e	2025e	2026e	2027e
Performance analysis						
Net Interest Margin (%)	0.40	(2.02)	(1.78)	(1.35)	(0.52)	(0.32)
Asset yield (%)	4.38	5.07	4.50	4.30	4.10	4.10
Cost of Funds (%)	1.38	1.97	1.50	1.40	1.20	1.20
Risk Adjusted Margins (%)	0.08	(2.50)	(2.36)	(1.99)	(1.13)	(0.91)
Cost / Income (%)	66.9	66.6	60.6	55.9	52.2	50.8
Net Interest Income / total income (%)	3.9	(15.6)	(12.2)	(9.2)	(3.5)	(2.2)
Fees & Commissions / operating income (%)	4.2	10.0	10.2	9.9	9.5	9.5
Trading gains / operating income (%)	73.3	91.3	87.5	85.2	80.5	79.2
RoATE (%)	9.2	10.4	11.4	12.9	14.7	15.2
Pre-prov. RoATE (%)	9.8	11.4	12.3	13.8	15.4	16.0
RoAA (%)	1.0	1.0	1.0	1.1	1.3	1.3
Revenue / RWA (%)	3.04	5.26	4.26	4.54	4.86	4.99
Costs / RWA (%)	2.03	3.50	2.58	2.54	2.54	2.54
PPP / RWA (%)	1.01	1.76	1.68	2.00	2.32	2.45
Cost of Risk / RWA (%)	0.10	0.20	0.17	0.20	0.20	0.20
RoRWA (%)	1.24	1.98	1.69	1.90	2.18	2.28
RoRWA (%) (adj. for gross-up of associates)	1.24	1.98	1.69	1.90	2.18	2.28

Year-end	2022	2023	2024e	2025e	2026e	2027e
Asset Quality						
Provisions charge / avg. gross loans (%)	0.5	0.7	0.7	0.8	0.8	0.8
Past due not impaired / gross loans (%)	4.8	4.0	4.1	4.2	4.3	4.5
NPL / gross loans (%)	3.5	7.9	8.0	8.0	8.0	8.0
NPL coverage ratio (%)	124.4	56.8	56.6	58.7	60.9	63.2
Provisions / avg. gross loans (%)	4.8	4.0	4.1	4.2	4.3	4.5
Provisions charge / operating income (%)	9.5	11.2	10.1	9.8	8.6	8.2

Year-end	2022	2023	2024e	2025e	2026e	2027e
Funding and Liquidity						
Net Loans / Deposits (%)	106.7	42.1	43.0	42.9	42.8	42.7
Cash and interbank / assets (%)	8.8	3.4	-	(1.9)	(3.5)	(5.1)
Deposits / liabilities (%)	15.5	36.4	35.5	35.5	35.5	35.5

Year-end	2022	2023	2024e	2025e	2026e	2027e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	13.9	19.6	17.1	17.0	17.1	17.1
Tier 1 ratio (%)	14.0	19.7	17.2	17.1	17.2	17.2
Total capital ratio (%)	14.7	21.0	18.1	18.0	18.0	18.0
Tangible equity / assets (%)	11.0	9.7	9.5	9.4	9.5	9.4
RWA / assets (%)	74.6	46.6	57.4	56.7	56.1	55.5

Year-end	2022	2023	2024e	2025e	2026e	2027e
Growth						
Revenues (%)	(15.5)	23.2	7.7	13.8	14.4	9.8
Cost (%)	10.8	22.6	(2.0)	5.0	6.9	6.9
Pre-Provision Operating Profit Growth (%)	(42.8)	24.3	27.0	27.3	23.9	12.9
Provisions (%)	(57.7)	47.2	14.7	23.4	8.0	8.0
Net Profit (%)	7.2	14.0	13.1	20.0	22.7	12.1
Assets (%)	20.7	13.9	8.0	8.0	8.0	8.0
Loans (%)	9.5	7.1	7.9	7.8	7.8	7.8
Deposits (%)	(9.8)	171.7	5.7	8.0	8.0	8.0
Risk Weighted Assets (%)	(11.9)	(28.9)	33.0	6.7	6.8	6.9

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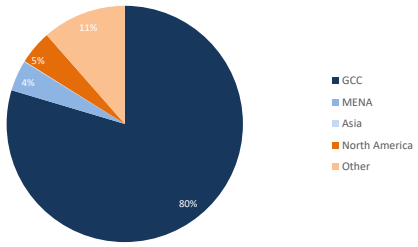
Abacus *Arqaam Capital Fundamental Data*

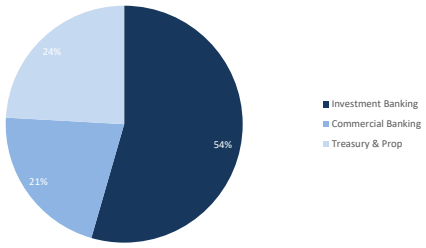
Company Profile

GFH is a Bahrain-domiciled Sharia-compliant financial group that is focused on investment banking, treasury activities, commercial and retail banking in Bahrain via Khaleeji Bank BSC (Khaleeji) and proprietary investments.

Geographical breakdown



Revenue Breakdown



Management	
CEO	Hisham Ahmed Al Rayes
CFO	Suryanarayanan Hariharan
COO	Salah Abdulla Sharif

Major Shareholders	
Keypoint Trust	7.20%

GFH Financial Group

Year-end	2022	2023	2024e	2025e	2026e	2027e
Income statement (USDmn)						
Interest income	95	107	91	97	105	118
Interest expense	86	149	127	128	118	128
Net Interest Income	**9**	**(42)**	**(36)**	**(31)**	**(13)**	**(9)**
Fee income	9	27	30	33	36	40
Net investment income	43	29	54	66	71	77
Other operating income	160	259	245	266	288	312
Total operating income	**221**	**273**	**294**	**334**	**382**	**419**
Total operating expenses	148	181	178	187	199	213
Pre-provision operating profit	**73**	**91**	**116**	**147**	**183**	**206**
Net provisions	7	10	12	14	16	17
Other provisions / impairment	(4)	10	4	4	5	5
Operating profit	**70**	**71**	**100**	**128**	**162**	**184**
Associates	28	35	20	20	20	20
Pre-tax profit	**98**	**105**	**120**	**148**	**182**	**204**
Taxation	-	-	-	-	-	-
Net profit	**98**	**105**	**120**	**148**	**182**	**204**
Minorities	7	2	4	9	11	12
Others	-	-	-	-	-	-
Attributable net profit	**90**	**103**	**116**	**140**	**171**	**192**
Diluted EPS	0.02	0.03	0.03	0.04	0.04	0.05
DPS	0.02	0.02	0.02	0.02	0.03	0.03
BVPS	0.26	0.26	0.27	0.29	0.32	0.34
Tangible BVPS	0.26	0.26	0.27	0.29	0.32	0.34

Year-end	2022	2023	2024e	2025e	2026e	2027e
Balance sheet (USDmn)						
Gross loans and advances	**1,500**	**1,609**	**1,738**	**1,877**	**2,027**	**2,189**
Less: loan loss provisions	64	72	79	88	99	111
Net loans and advances	1,435	1,537	1,659	1,789	1,928	2,079
Cash and central bank	858	377	456	616	790	979
Due from banks	-	-	-	-	-	-
Investment, net	6,644	7,806	8,420	8,984	9,593	10,251
Fixed assets, net	233	275	275	286	297	309
Other assets	590	1,126	1,201	1,297	1,401	1,513
Total assets	**9,760**	**11,121**	**12,011**	**12,972**	**14,010**	**15,131**
Customer deposits	1,345	3,655	3,862	4,171	4,505	4,865
Due to banks	-	-	460	861	1,281	1,743
Debt	5,733	4,448	4,448	4,448	4,448	4,448
Other liabilities	1,611	1,945	2,100	2,269	2,450	2,646
Total liabilities	**8,689**	**10,047**	**10,870**	**11,749**	**12,683**	**13,702**
Total equity	**1,071**	**1,074**	**1,141**	**1,223**	**1,327**	**1,428**
Risk Weighted Assets (bn)	7	5	7	7	8	8
Average Interest-Earning Assets	2,163	2,104	2,015	2,260	2,562	2,888
Average Interest-Bearing Liabilities	6,216	7,590	8,436	9,125	9,857	10,645
Common shareholders	997	990	1,045	1,120	1,215	1,307
Core Equity Tier 1 (Basel III)	1,016	1,016	1,177	1,252	1,347	1,439
Tier 1 capital	1,020	1,023	1,184	1,259	1,354	1,447

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SWOT

Opportunities

- Strategic objective of reshaping the company's business towards a more stable and diversified model (i.e. launch of GFH partners in 2023, a global real estate investment arm, with $6bn in assets currently).
- Growth in assets under management (target: USD 25bn, up from 21bn currently) as it pursues strategic acquisitions.
- One of the few Shariah-compliant IB platforms in the region.
- Planned listing in KSA. Currently listed on the Bahrain bourse, Boursa Kuwait, DFM and ADX.
- Lower interest rates to support margins.

Threats

- Investment-banking earnings can be lumpy depending on deal placement and exits.
- Underwriting investment banking deals can be balance sheet-intensive, with income dependent on client placement/exits.
- Real estate assets expose GFH to impairments and project-completion risks.

Strengths

- Strong capital and liquidity ratios.
- High share of liquid assets on the balance sheet (c37%).
- De-risking (reduction in real estate exposure) and diversified IB portfolio spread across real estate, healthcare, technology and education.
- Licensed and regulated deposit-taking investment bank in the region (~90% of fund inflows from deposits rolled over).

Weaknesses

- Large asset base depresses profitability where assets are not regularly monetised.
- Low credit ratings (B from Fitch).
- Lack of fungibility of capital and liquidity between the parent entity and Khaleeji.

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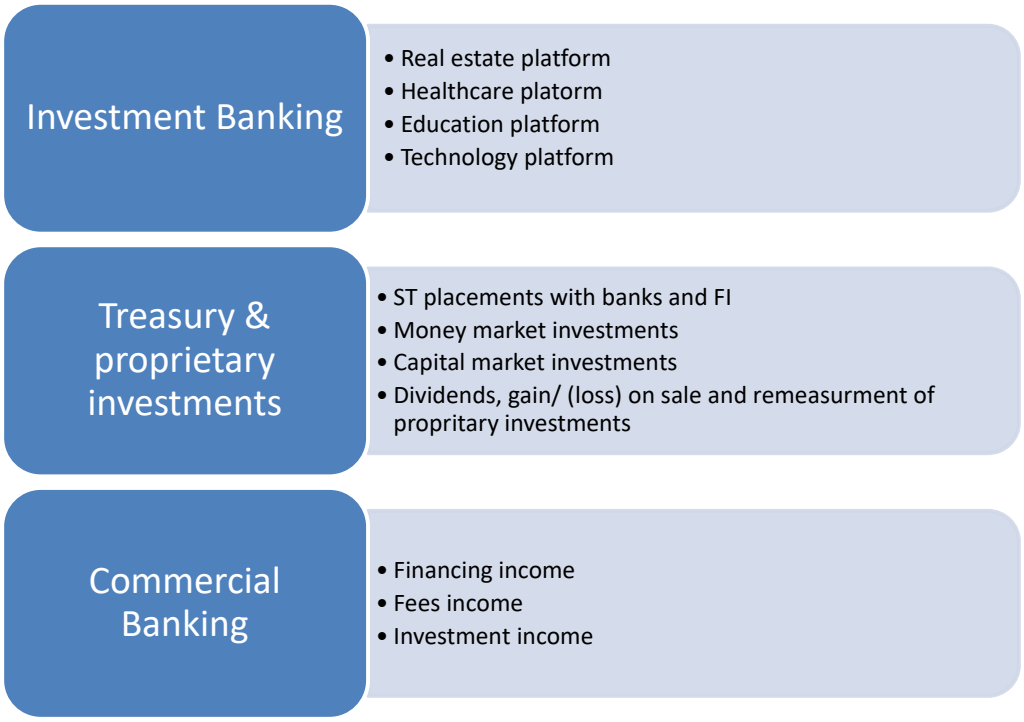
Diversified business model driven by the IB segment.

- **Headquartered in Bahrain, GFH offers Islamic banking services across investment banking, commercial banking, and treasury and proprietary investments, with significant revenue contribution stemming from all segments (i.e., 54% investment banking, 24% treasury and prop., and 21% commercial banking in 2023).**
- **Well-diversified asset base with a global footprint, albeit more focused in GCC as Bahrain-based GFH's commercial banking arm, Khaleeji Bank (Khaleeji), accounts for c. 35% of the asset base, while treasury is mainly active in the MENA region. Nevertheless, GFH's footprint reaches the U.S. and Europe through its investment arms across the real estate, healthcare, and technology segments (albeit not fully reflected in its financial statements).**
- **The group plans to grow its AUM from USD 21.1bn in 2023 to USD 25bn by YE 25 through further strategic acquisitions.**
- **As we advance, we expect the return generations to be supported by a robust IB pipeline as it continues to expand its investment portfolios in key defensive sectors, mainly in KSA, UAE, and the U.S., and improving performance in its commercial banking and treasury/proprietary investment segments as rate cuts come through. We pencil in a RoE of 11.4% in 2024 (vs. 10.4% in 2023 and 9% in 2022) and a 5Y EPS CAGR of 16%.**

Exhibit 1: Business segments



Source: Company Data, Arqaam Capital Research

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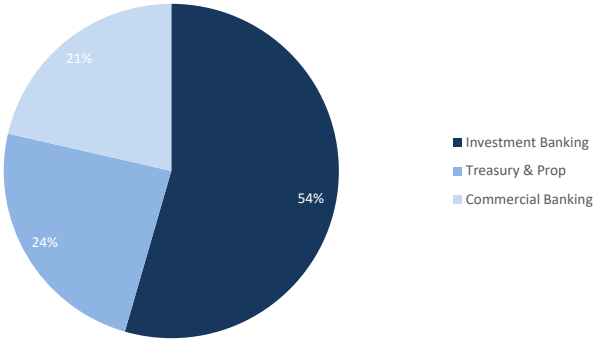
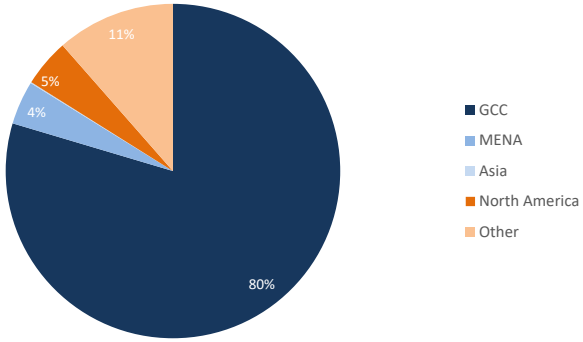
Exhibit 2: Revenue Breakdown



Source: Company Data, Arqaam Capital Research

Exhibit 3: Asset Breakdown by Geography



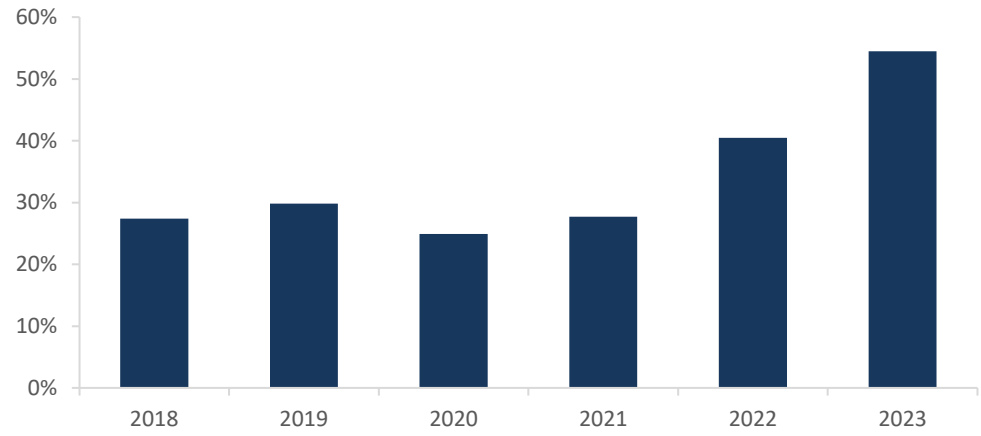
Source: Company Data, Arqaam Capital Research

1. Investment banking

Investment banking activities include deal offerings of private equity and income-yielding asset opportunities. The Group earns the deal-related income from the structuring and sale of assets. In contrast, the fee-based income consists of management, performance, acquisition, and exit fees, which are contractual.

Investment banking activities significantly contribute to earnings but can be lumpy and depend on deal placement and investment exits. Investment management fees are more stable and recurring, earned on managing income-yielding real-estate investments.

Exhibit 4: Investment Banking revenue contribution



Source: Company Data, Arqaam Capital Research

GFH remains focused on expanding its investment portfolios in defensive sectors and geographies, especially in the GCC (UAE and KSA in particular) and U.S., as it continues to implement the Group's expansion and diversification strategy (Launch of GFH Partners Ltd), following a strong momentum in 2023 through which 8 IB deals were successfully closed.

The current investment management portfolio is spread across the real estate, education, healthcare, and technology sectors.

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a) Investment banking – Real Estate

As part of the real estate investments platform, the group focuses on defensive sectors such as Logistics, Medical Offices, Multifamily, and Student Housing, pursuing income-yielding investments mainly in the US, GCC, and UK, managing these on behalf of its clients alongside on the ground asset manages.

RE – Logistics

The logistics sector is driven mainly by thriving e-commerce transactions and increased post-pandemic consumer spending. GFH's logistics portfolio includes the following graded A facilities in the US:

- 19 facilities leased to Amazon, with tenant S&P corporate credit rating of AA-.
- 10 income-yielding mission-critical assets leased to FedEx Ground and General Mills.
- 1 single built-to-suit facility leased to FedEx, with tenant S&P rating of BBB.
- 1 facility leased to Michelin, with tenant S&P Corporate Credit Rating of A-.

RE – Medical Office Buildings

The ageing US population supports this segment and increased demand for off-campus healthcare services and suburban concentration. The sector maintained a healthy average occupancy of 90%+ over the last decade, with the rent collection rate surpassing 90% throughout the pandemic. The portfolio comprises 24 medical office assets comprising short- and long-term leases to some of the most prominent names in US healthcare, including Cleveland Clinic, Texas A&M Health Science Center, Novant Health, Children's Wisconsin Meritus Health, etc.

RE – Multifamily

This segment is driven by the demographic shifts in "Sunbelt states" in the US (areas below 36°) and the general shift towards renting. The portfolio consists of 3 income-yielding multifamily residential assets in prime locations in Las Vegas, Nevada, and Baltimore, Maryland, that witness high occupancy rates and population growth. In this portfolio, GFH partnered with Carroll, a JV Partner with 700+ employees and 30,000+ units owned and managed by them, and Broadshore, a JV Partner with 150 years of experience and 30+ multifamily investments worth US$1.bn.

RE – Student Housing

This segment is supported by increased demand for off-campus purpose-built student housing properties, the growing US population, and increased demand for higher education. GFH's student housing sector investment strategy focuses on building a diversified portfolio that targets universities within the top 150 public universities in the US that are considered flagship universities in their respective states. The portfolio consists of 5 assets (+2,100 beds) within the vicinity of Texas A&M University, Michigan State University and Missouri State University. In 2023, GFH exited one of its housing portfolios, realizing an ROI of 10.4% following 2 years of investment period.

RE – Malls

The portfolio consists of i) Jeddah Mall, strategically positioned within reach of travellers en route to Makkah, and ii) Hidd Mall, located in the fast-growing area of Hidd in Muharraq and fully leased to Lulu Hypermarkets, the largest retail chain in the Middle East, under a long-term lease with a 100% occupancy.

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RE – Hospitality/Office/Data centers

Other portfolios within the real estate platform cover i) the hospitality sector through 12 premium hotels under the Hilton and Marriott brands, ii) the office sector through an office business park with easy reach to Heathrow and Luton airports, and iii) the fast-growing data centre space through 2 facilities in the US state of Virginia.

b) Investment banking – Healthcare

This platform focuses on fast-growing segments of the healthcare industry, including dental, cosmetic and dermatology, primary care, woman-care, and out-patient pediatric rehabilitation centres through its UAE Multi-Specialty Healthcare (MSH) portfolio while catering to senior citizens through its US Senior Healthcare portfolio (6 properties).

c) Investment banking – Technology

This segment focuses on investments in the pre-IPO stage. These high-growth companies specialise in next-gen technologies while including strategic stakes in Marshal FinTech Investment Company, the region's largest and oldest enabler of payment technology, and The Entertainer, the leading mobile commerce destination for dining, travel, lifestyle and live entertainment experiences across 14 countries within MENA.

d) Investment banking – Education

This segment focuses on the private education industry through its i) K-12 education platform, Britus Education, with nine schools in the Middle East under management; ii) Bahrain's 2nd most prominent university, the University of Technology Bahrain, catering to c. 2,500 students and iii) Bahrain's largest premiere particular education school, Britus International School for Special Education, catering to c. 400 special need students.

2. Commercial Banking – Khaleeji Bank (Khaleeji)

This includes commercial and corporate banking, retail banking, wealth management, structured investment products, and project financing facilities for the Group's commercial banking subsidiary. Khaleeji is a significant contributor to GFH's revenue and net profit, mainly through providing the group with Islamic-financing products and a source of more stable deposit funding. Following a balance sheet clean-up exercise in recent years Khaleeji's asset quality has been improving.

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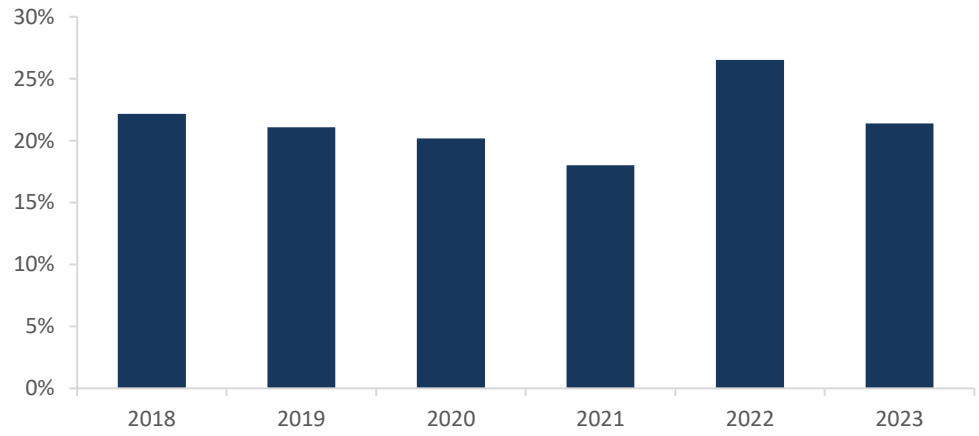
Exhibit 5: Key metrics – 2023 (impacted by the higher rate environment)

Balance Sheet	P&L	Asset Quality	Capital base and liquidity
• Assets: BD 1,502mn • Liabilities: BD 1,345mn • Equity: BD 157mn • LtD: 89% • Asset/Equity: 9.5x • Loan/ Equity: 3.5x	• RoE: 5.7% • RoA: 0.6% • NIM: 1.13% • C/I: 59% • CoR: 0.26%	• Stage 1: 74% • Stage 2: 17% • Stage 3: 8% • Stage 1 coverage: 0.4% • Stage 2 coverage: 5.8% • Stage 3 coverage: 32.5% • Deficit: -381bps (AC test)	• CET1: 19% • T1: 27% • CAR: 28% • LCR: 340% • NSFR: 103%

Source: Company Data, Arqaam Capital Research

Exhibit 6: Commercial Banking revenue contribution



Source: Company Data, Arqaam Capital Research

Treasury activities – benefits from deploying in high-yielding Bahrain sovereign paper at 0% risk weighting,

GFH's treasury activities are a growing area and a significant profit contributor, having commenced only a few years ago. This adds to the stability of the group's earnings as investments are expected to be focused mainly on government, quasi-government, and corporate debt while allowing the bank to tap into the Saudi and UAE wholesale markets for funding.

Proprietary Investments

This business unit is primarily involved in managing GFH's proprietary investments in private companies, investment funds, and financial institutions. The business unit also covers the Group's investment in real estate and related assets.

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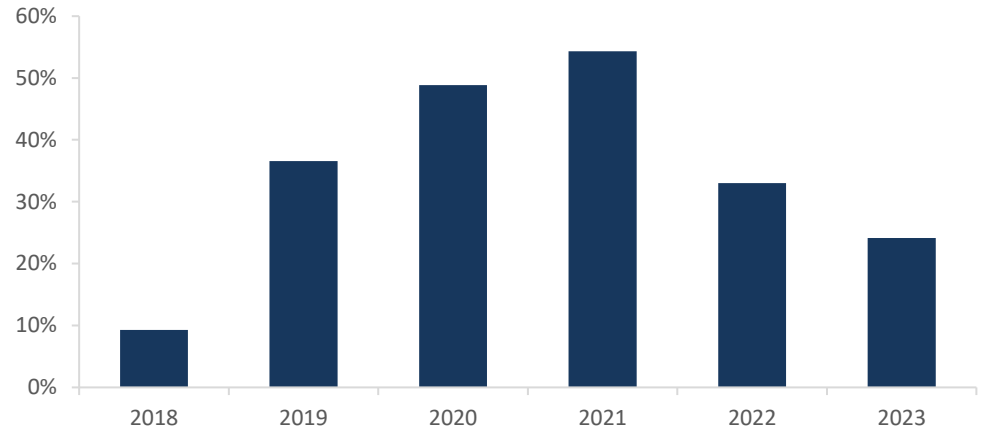
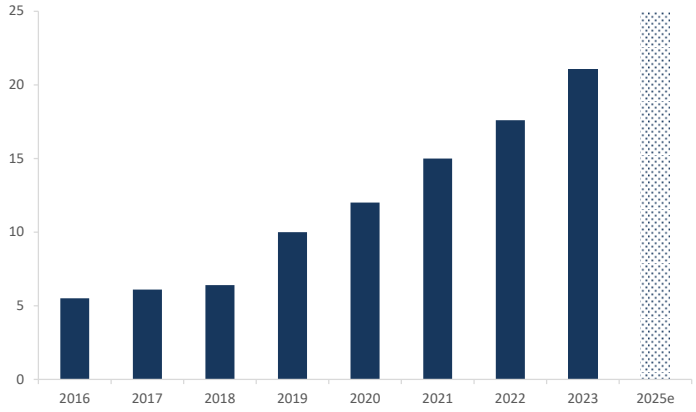
Exhibit 7: Proprietary and treasury revenue contribution



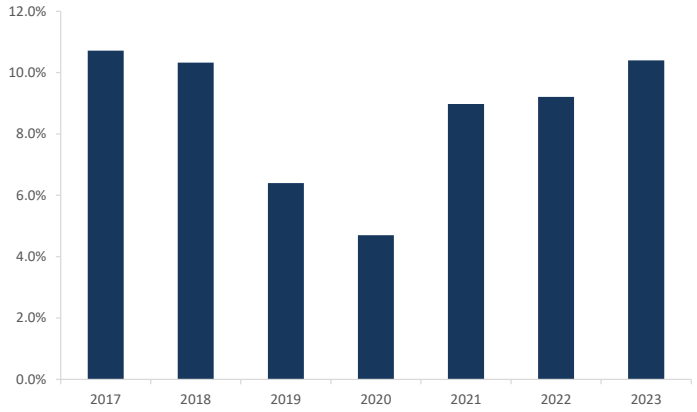
Source: Company Data, Arqaam Capital Research

Exhibit 8: AUM evolution



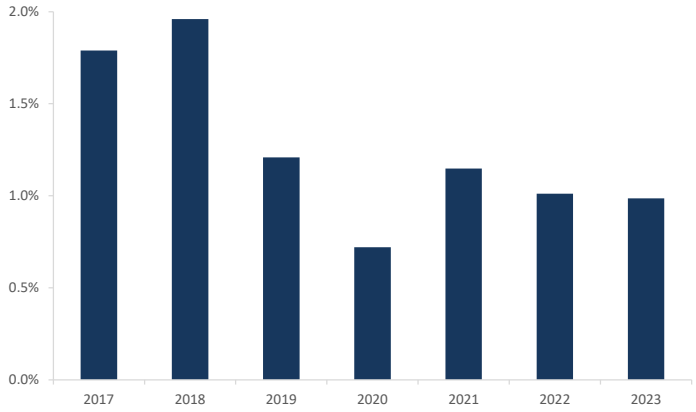
Source: Company Data, Arqaam Capital Research

Exhibit 9: RoE Evolution



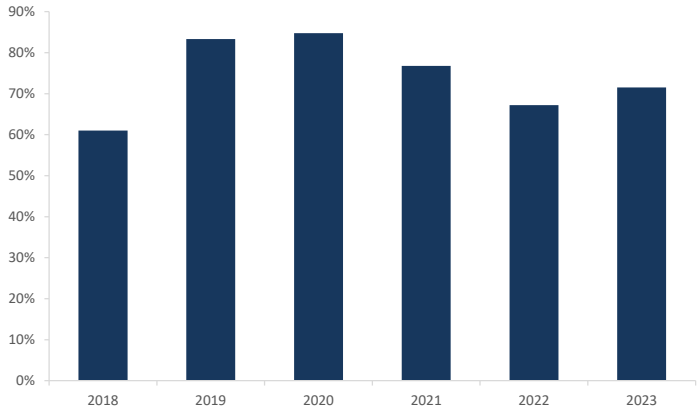
Source: Company Data, Arqaam Capital Research

Exhibit 10: RoA evolution



Source: Company Data, Arqaam Capital Research

Exhibit 11: C/I evolution



Source: Company Data, Arqaam Capital Research

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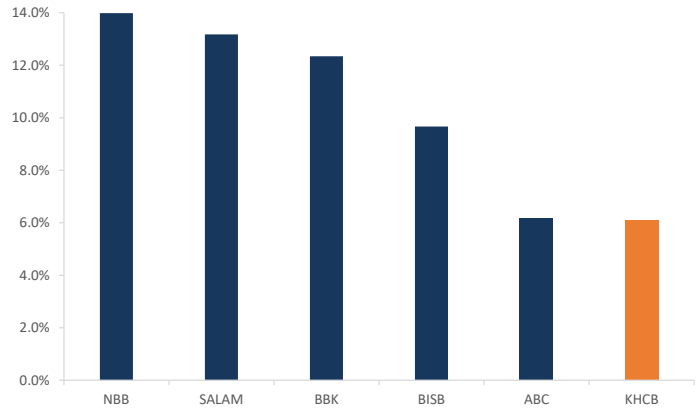
Khaleeji – Return generation should recover thanks to a favourable ALM gap amidst a lower-rate environment.

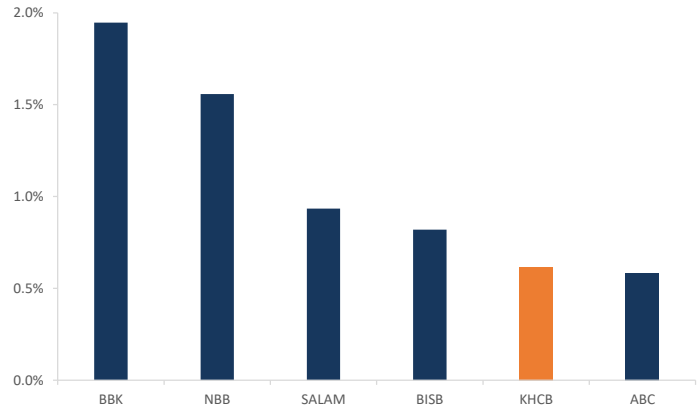
- Khaleeji reported lower than sector average RoE of 6.1% in 2023 (vs. 10.2%) mainly due to weaker margins as more liabilities than assets re-priced throughout the year (66% vs. 42%), offsetting more robust non-funded income generation, higher operating efficiency, and lower provisioning.
- As we advance, we expect return generation to improve as rate cuts come through, given a favourable 12m ALM gap. Nevertheless, CoR pressure will likely pick up over the upcoming years as stage 3 coverage continues to lag peers despite improved asset quality following the clean-up exercise in recent years.
- Credit activity should remain healthy in 2024 as the non-oil sector drives the real GDP growth, expected to rebound from 2.0% in 2023 to 2.5% in 2024 (according to Fitch Solutions). Khaleeji reported a loan growth of 8.6% in 2024, compared to 5.9% in 2023.

Exhibit 12: RoE – 2023



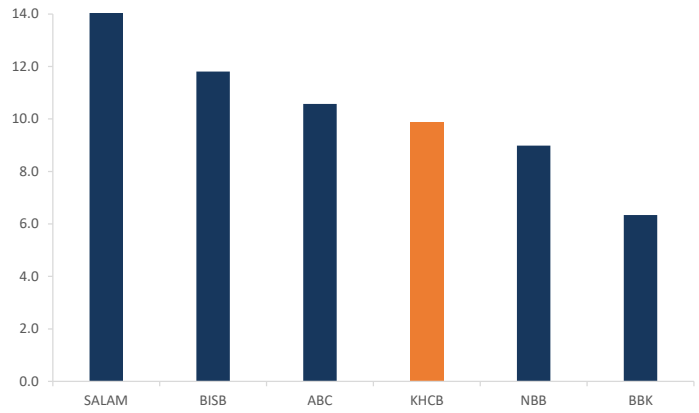
Source: Company Data, Arqaam Capital Research

Exhibit 13: RoA – 2023



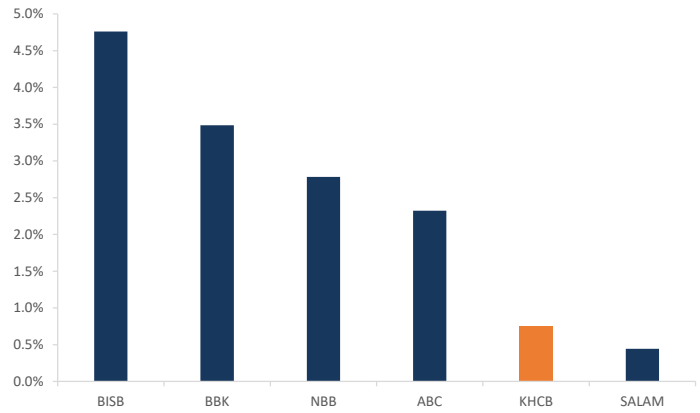
Source: Company Data, Arqaam Capital Research

Exhibit 14: Equity Multiplier – 2023



Source: Company Data, Arqaam Capital Research

Exhibit 15: NII/AA – 2023



Source: Company Data, Arqaam Capital Research

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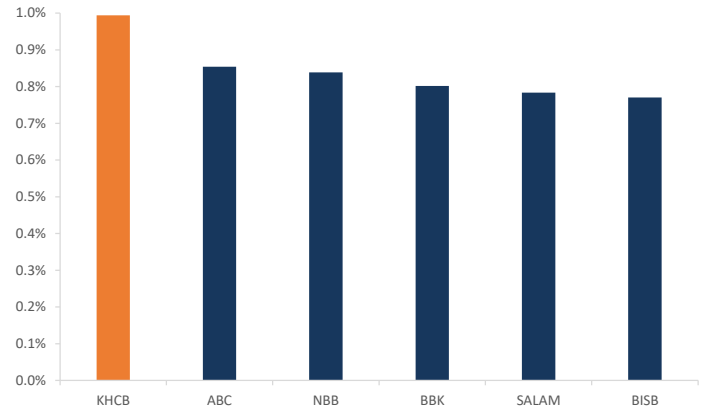
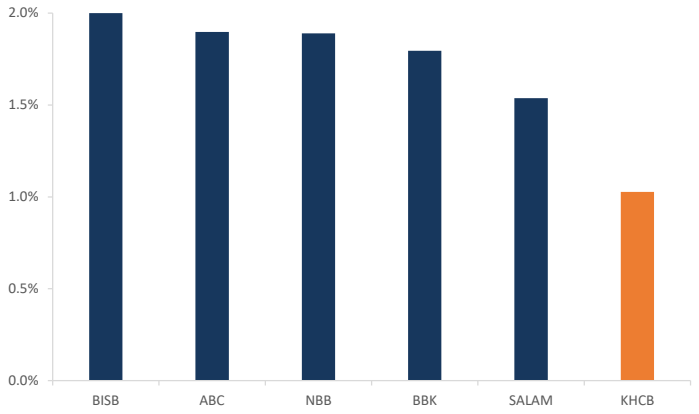
Exhibit 16: Non-NII/AA – 2023



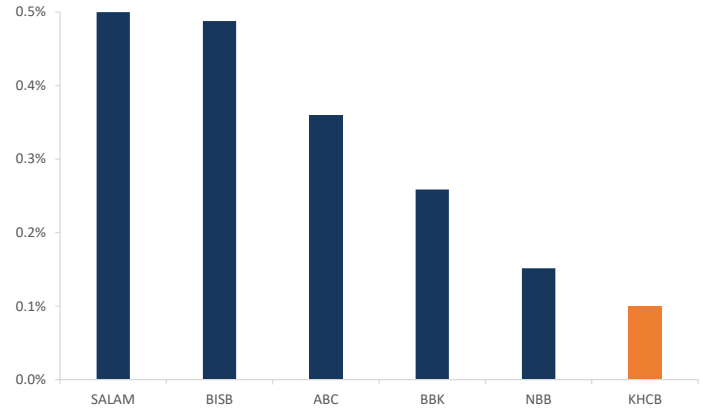
Source: Company Data, Arqaam Capital Research

Exhibit 17: OpEx/AA – 2023



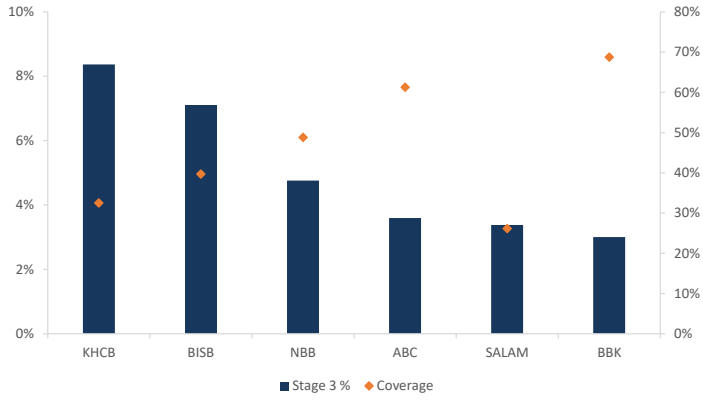
Source: Company Data, Arqaam Capital Research

Exhibit 18: Provisions/AA – 2023



Source: Company Data, Arqaam Capital Research

Exhibit 19: Stage 3 loans – 2023



Source: Company Data, Arqaam Capital Research

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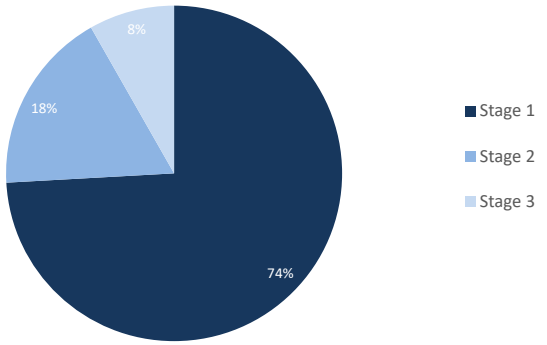
Significant hidden value in real estate portfolio, low stage 2 coverage justified by substantial collateral, but CoR is likely to pick up on weak stage 3 coverage.

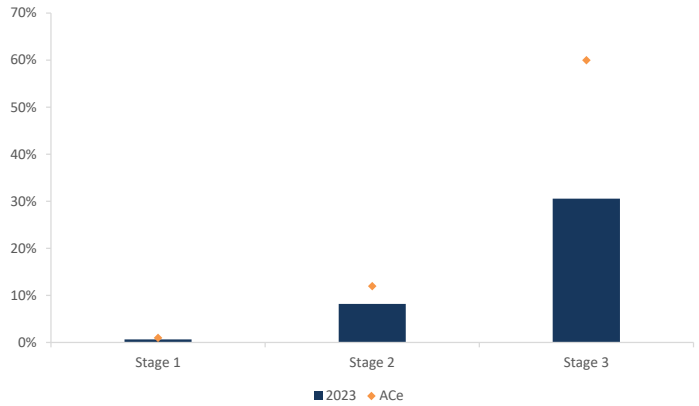
- The valuation of real estate is mainly at cost. We identify a USD 122m mark-to-market gain on the property investment book (8% of our FV) that is not reflected in GFH's shareholders' equity (2.4% of RWAs), with a fair value of USD 746m vs a book value of USD 625m, albeit mostly comprised of land.
- GFH's stage 1, 2, and 3 shares of the total book stood at c. 74%, 18%, and 8%, respectively, as of YE 23, with corresponding coverages of 0.7%, 8.2%, and 30.6%. We calculate a provisioning deficit of -333bps vs our standard acid test (1% for stage 1, 12% for stage 2, and 60% for stage 3, unadjusted for collateral).
- However, the collateral is substantial, increasing total stage 2 coverage to 68.4% from 8.2% YE 23 and stage 3 coverage to 40.7% from 30.6%.
- We expect a mid-cycle CoR of 80bps CoR. However, the financing book represents only 14% of total assets as of YE23.

Exhibit 20: Stage 1,2 & 3 (% of financing book)



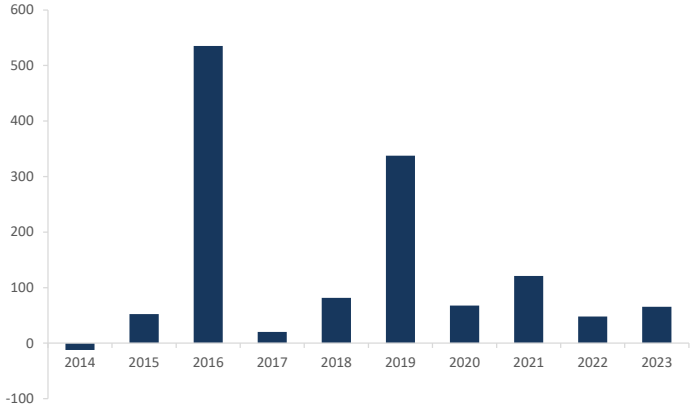
Source: Company Data, Arqaam Capital Research

Exhibit 21: Stage 1,2 & 3 coverage



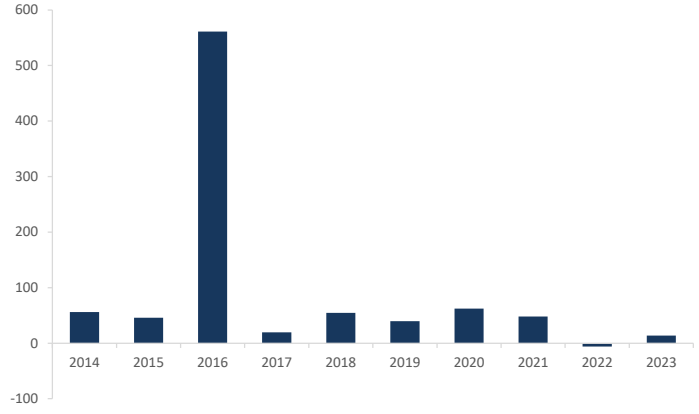
Source: Company Data, Arqaam Capital Research

Exhibit 22: CoR evolution



Source: Company Data, Arqaam Capital Research

Exhibit 23: Other provisions evolution*



Source: Company Data, Arqaam Capital Research
** as % of Treasury, Investment, and receivables*

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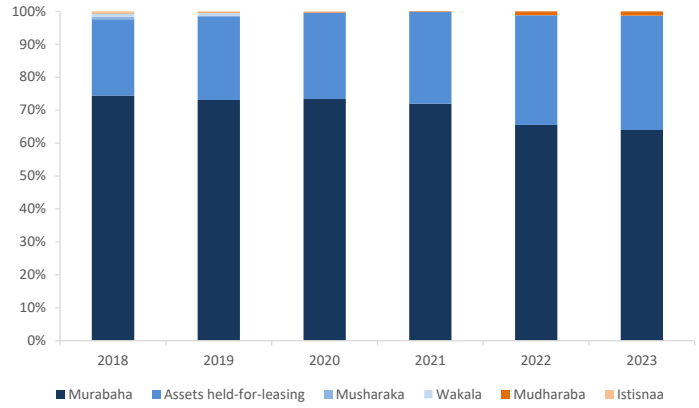
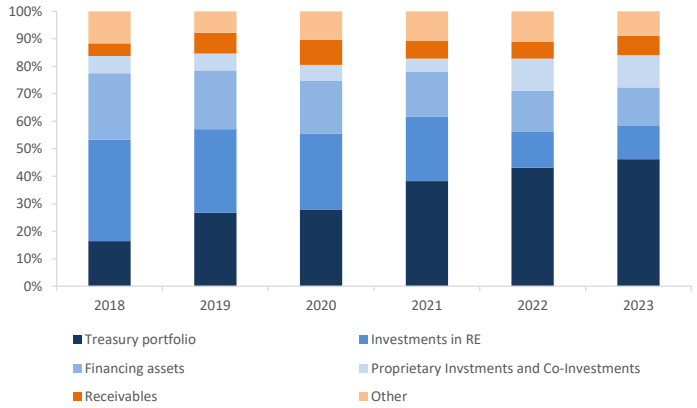
Exhibit 24: Financing book breakdown



Source: Company Data, Arqaam Capital Research

Exhibit 25: Asset base breakdown



Source: Company Data, Arqaam Capital Research

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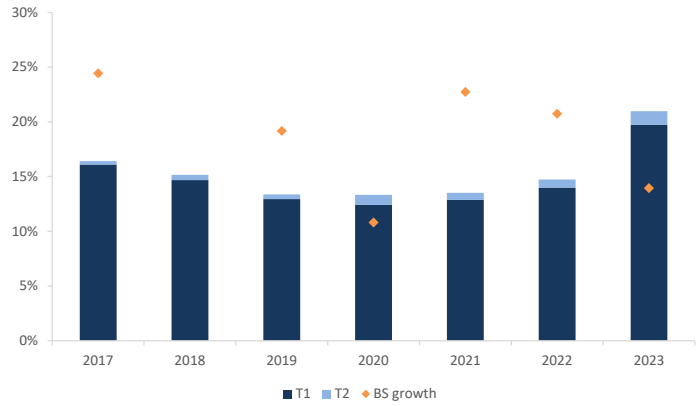
Strong capital base with noticeable improvement in liquidity

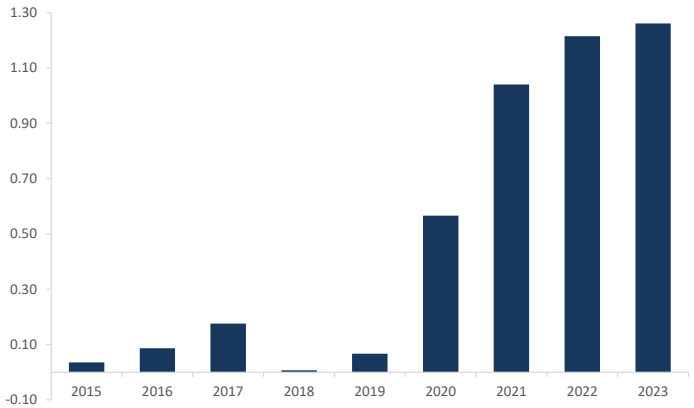
- **CET1 improved to 19.7% and CAR to 21.0%, up from 14.0% and 14.7% YE22, vs a minimum requirement of 10.5% and 12.5%, respectively, on the back of a 33% decline in CRWA, despite slightly higher operational and market risk-weighted assets, reflecting a high share of treasury assets and low-risk assets.**
- **GFH's liquidity profile also improved, with NSFR and LCR increasing from 111% and 134% at YE22, respectively, to 148% and 233% at YE23.**

Exhibit 26: Significant improvement in T1 ratio on the back of a declining RWA despite a growing BS.



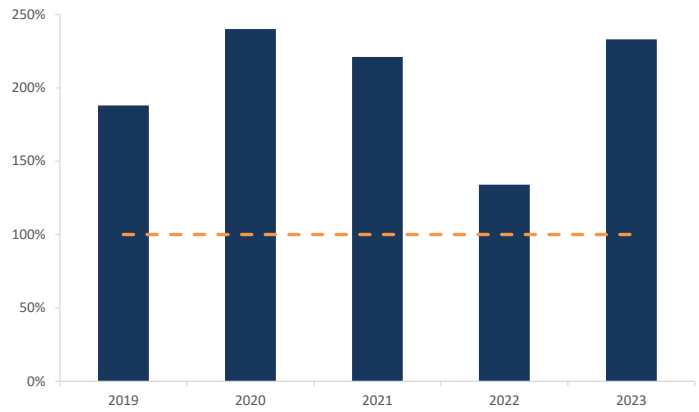
Source: Company Data, Arqaam Capital Research
**FY 18 growth: -25%*

Exhibit 27: Net debt/ Equity*



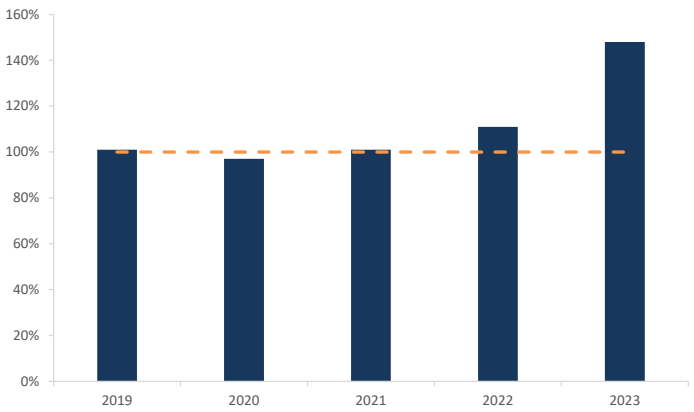
Source: Company Data, Arqaam Capital Research
**Net debt = total financing – Cash (excl. cash in CB)*

Exhibit 28: LCR



Source: Company Data, Arqaam Capital Research

Exhibit 29: NSFR



Source: Company Data, Arqaam Capital Research

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Better earnings resilience, growing AuM, and potential listing on TADAWUL are yet to be reflected in the valuation.

- Stock is trading at P/tNAV 24e of 1.1x while offering RoE of 11.4%, compared to a 10Y historical average of 0.8x and 9%. We see room for further improvement, reflecting better earnings resilience and targets to improve the return profile.
- The stock traded at a 23% discount to peers (Bahraini banking sector and EFG).
- We expect the TADAWUL listing to increase the liquidity of the shares and further enhance the visibility of the stock.

GFH plans to deliver further shareholder value by cross-listing shares on Tadawul, having already listed on Bahrain Bourse, Boursa Kuwait, DFM and ADX.

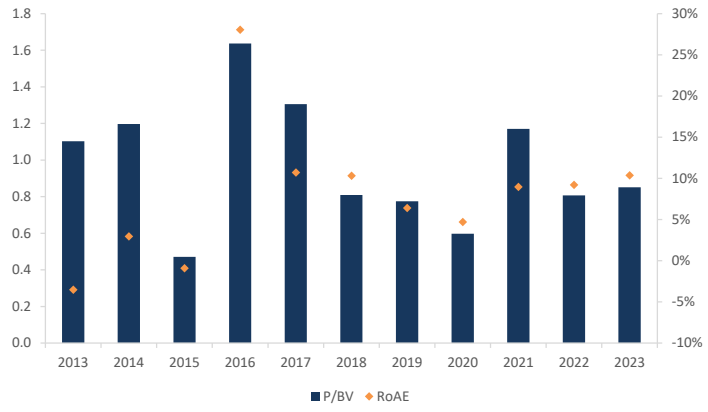
The stock trades at 1.1x P/tNAV and still does not fully recognise the company's de-risking, the enhanced capital and liquidity buffers (RWA reduction) and higher earnings resilience (with real estate exposure currently making for 12% of assets).

Exhibit 30: Peer Group Valuation

Company	Mkt. Cap. (USDm)	CCY	Mkt Cap. (m)	ADTV (USDm)	Share price	P/E (x)		P/tNAV (x)		RoE (%)		DVD yield (%)		EPS Growth (%)	
						22A	23A	22A	23A	22A	23A	22A	23A	22A	23A
GFH	1,108	USD	1,108	0.57	0.29	8.7	9.2	0.8	0.9	9.2	10.4	5.2	6.5	2.8	11.8
NBB	3,258	BHD	1,228	0.15	0.55	18.0	17.0	2.4	2.6	12.5	14.0	3.1	3.4	25.2	16.7
BBK	2,433	BHD	917	0.08	0.53	11.9	13.6	1.3	1.5	11.3	12.3	3.9	4.0	19.2	15.8
SALAM	1,500	BHD	565	0.56	0.22	11.3	11.7	0.8	2.0	10.5	13.2	4.0	2.4	58.0	33.8
ABC	995	USD	995	0.02	0.31	9.0	6.2	0.2	0.3	4.1	6.2	3.7	4.8	66.7	40.0
HRHO	564	EGP	26,579	3.46	18.21	11.3	12.9	1.2	1.4	11.0	11.0	NA	NA	18.5	18.5
SHUAA	90	AED	330	0.94	0.13	NA	NA	3.1	NA	NA	NA	NA	NA	NA	NA
Average						**11.7**	**11.8**	**1.4**	**1.4**	**9.8**	**11.2**	**4.0**	**4.2**	**31.7**	**22.7**

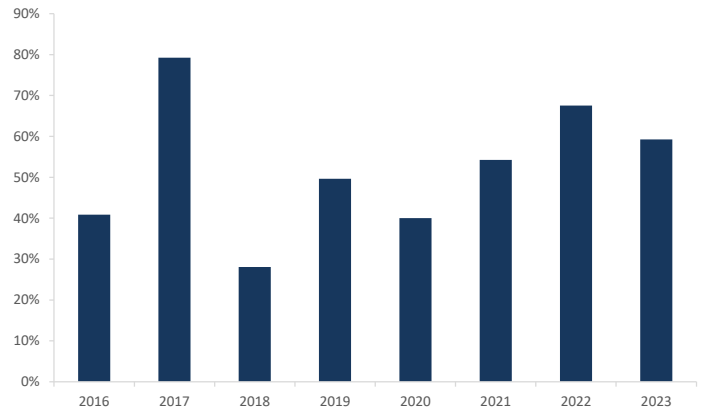
Source: Bloomberg, Arqaam Capital Research

Exhibit 31: P/BV vs. RoAE



Source: Company Data, Arqaam Capital Research

Exhibit 32: DPO ratio



Source: Company Data, Arqaam Capital Research

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We set a TP of AED 1.51 or USD 0.41/share. This is based on our EVA model.

Key assumptions: CoE of 13%, based on a US risk-free rate of 4%, 10-year CDS of 302bps for Bahrain and an equity risk premium of 6% (1% reduction because of natural demand for Sharia-compliant FIG stocks). We include a revaluation gain of USD 122m on its real estate assets and a USD 51m reduction for its provision buffers.

Exhibit 33: GFH EVA

Year-end	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e	perp	subtotal
1. DCF															
Net profit	217	107	114	66	45	84	90	103	116	140	171	192	214	220	
Other adjustments (comprehensive income and GW amortization)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Minus: excess return excess capital	18	16	17	10	7	5	5	16	10	11	11	12	13	13	
Risk free rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Tax shelter	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Adjusted net profit	199	91	97	56	38	79	85	87	106	129	160	180	201	206	
Capital requirements	516	1,007	964	1,000	993	992	874	622	827	883	943	1,008	1,078	1,105	
RoEcC	38.5%	9.1%	10.1%	5.6%	3.8%	8.0%	9.7%	14.0%	12.9%	14.6%	16.9%	17.8%	18.7%	18.7%	
Cost of capital	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	
Capital charge	67	131	125	130	129	129	114	81	108	115	123	131	140	144	
Economic profit	132	(40)	(28)	(74)	(91)	(50)	(29)	6	(1)	14	37	49	61	63	
Discount factor	--	--	--	--	--	--	--	--	1.00	0.88	0.78	0.69	0.61	0.54	
NPV of Economic Profit	--	--	--	--	--	--	--	--	(1)	13	29	34	38	34	
DCF EVA Forecast period															112
Perpetual growth rate (nominal GDP)														2.5%	
Terminal Value														598	
Terminal value discounted															325
Required Capital															622
Value of the bank operations															**1,058**
2. Capital surplus/deficit															
Available capital:															
Shareholders equity	908	1,150	1,059	1,005	913	963	997	990	1,045	1,120	1,215	1,307	1,407		
Minorities	214	346	364	288	273	205	75	85	96	104	112	121	131		
Less Goodwill & intangibles	(55)	--	--	--	--	--	--	--	--	--	--	--	--		
Less non equity elements reported shareholders equity															
Less Dividends (if included in reported equity)	(89)	(85)	(32)	(33)	(18)	(46)	(61)	(61)	(65)	(76)	(99)	(115)	(134)		
Tangible equity	978	1,411	1,391	1,260	1,168	1,122	1,010	1,013	1,076	1,147	1,227	1,314	1,404		
Capital needs															
RWAs (Basel III)	4,299	8,388	8,031	8,330	8,272	8,268	7,285	5,182	6,895	7,360	7,861	8,402	8,986		
Equity as % RWA	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%		
Financial stakes	--	--	--	--	--	--	--	--	--	--	--	--	--		
Capital Requirements	516	1,007	964	1,000	993	992	874	622	827	883	943	1,008	1,078		
Surplus capital	**462**	**404**	**427**	**260**	**175**	**130**	**136**	**392**	**249**	**264**	**284**	**306**	**326**		**392**
3. Other adjustments															
Real Estate hidden value															122
Underprovisionning vs. arqaam acid test (conservative)															(51)
Total adjustments															**71**
4. Dividends															**65**
Total Fair Value															**1,585**
Fully diluted number of shares															3,833
Fair value per share															**0.41**
Current share price															**0.30**
Upside															**37.9%**
Implied P/E (x)	7.3	14.8	13.9	24.0	35.2	18.8	17.6	15.4	13.6	11.4	9.3	8.3	7.4		
Implied P/tNAV (x)	1.9	1.4	1.5	1.6	1.7	1.6	1.6	1.6	1.5	1.4	1.3	1.2	1.1		

Source: Company Data, Arqaam Capital Research

Exhibit 34: SotP

SotP	BV24e USD m	NP 24e USD m	P/BV (x)	P/E (x)	Valuation
Commercial bank	834,640	23,664	0.8	28.2	667,712
IB	30,469	50,828	25.0	15.0	762,420
Treasury and Proprietary	206,285	23,215	0.6	5.0	115,919
Group	**1,071,394**	**97,707**	**1.4**	**15.8**	**1,546,051**

Source: Company Data, Arqaam Capital Research

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ESG – Aligned with the national vision.

- **GFH's ESG is aligned with Bahrain's national vision, incorporating key components of the Bahrain Vision 2030 while contributing towards 13/17 of the UN's Sustainability Development Goals.**

Latest ESG initiatives – 2023:

Associate Partnership with the World Economic Forum (WEF).

- In December 2023, GFH joined WEF as an Associate Partner.

Joined the Future Investment Initiative (FII) Institute.

- The partnership will see GFH and FII Institute engage in a range of strategic activities aimed at shaping a better world across Artificial Intelligence (AI) & Robotics, Sustainability, Healthcare, and Education.

Contributions to agricultural development across the Kingdom of Bahrain.

- The Group planted trees across a 2 km area in collaboration with the Capital Municipal Council and CleanUp Bahrain.

Offering Internship Program.

- Give students from international K12 schools the opportunity to gain hands-on experience in the financial industry.

Support sports and healthy lifestyle program.

- Sponsored the prestigious Ironman event in Bahrain.
- Partnering with World Aquatics to launch the region's first centre of excellence for aquatic sports.
- Sponsored the International Basketball Federation (FIBA) 3x3 Manama Masters.

Support the health and Social Impact sector.

- Established a specialised centre for prostate cancer treatment that utilises robotic-assisted surgery systems.
- Organized a walkathon to support children battling cancer.

Backing Entrepreneurship in Saudi Arabia:

- Partnered with Hope Ventures in the production of its upcoming season of "Beban", an entrepreneurship-themed reality television.
- The partnership supports expanding the program's third season into the Kingdom of Saudi Arabia. It underscores GFH's commitment to the growth of entrepreneurship and to empowering aspiring and innovative founders and business models in line with Saudi's Vision 2030 development and economic diversification goals.

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