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Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Abdullah Abbas

GFH Financial Group

Strong balance sheet activity in Q1, EPS surges 10.4% y/y

- **We leave our estimates for FY 25 and FY26 unchanged, with EPS growth of 10.4% in Q1, with RoE at 12.6%, up 1.3ppt y/y. We expect an EPS growth of 14% in FY25e and a 16% 5-year EPS CAGR.**
- **Balance sheet growth was strong at 5% q/q and 9.8% y/y, funded from quasi-equity and placements from financial institutions. In Q1, the solid performance was supported mainly by IB revenues, up by +45% y/y, and improved commercial banking revenue, up +17% y/y for Q1 25, partly offset by a slightly lower contribution from the proprietary and Treasury segment.**
- **We maintain our BUY on broad-based RoE expansion, improving deal flows and growing AuM base, up 10% y/y to USD 22.6bn. The stock trades at P/tNAV 25e of 1.1x while offering RoE of >12.6% and a DY of 5.2% (to be paid semi-annually as of 2025). The next catalysts are expanding IB and commercial banking performance, and lower borrowing costs. Our TP remains at USD 0.41/AED 1.51.**

We pencil in an EPS CAGR of 16% for FY25-28e after 10.4% EPS growth in Q1 25, with RoE>12.6% and on track to reach 16% in FY28e. EPS grew by +10.4% y/y in Q1 25, mainly driven by higher revenue from the IB/Commercial Banking segment, which surged +44.7% /17.6% y/y to USD 67m/40m for Q1 25, despite normalisation in proprietary investment revenue (USD 64m Q1 25 vs. USD83m m in Q1 24). The IB segment remains crucial to revenue generation, accounting for 39.1%, while commercial banking contributed 24.3% to overall revenue in Q1 25.

Asset expansion across core segments and development backlog in RE underpins revenue visibility, on track to reach the medium RoE target of 16%: Balance sheet growth was strong at 5% q/q and 9.8% y/y. Funding from financial institutions rose 14.9% q/q, and 58% y/y, and quasi equity by 27.7% q/q and 3.6% y/y (mostly wakala). Treasury portfolio is up 15% y/y (+7.3% q/q) on higher allocation to quoted sukuks and MTM gains. Financing contracts expanded +26.2% y/y (+13.1% q/q) on the back of Ijarah lending (+47.9% y/y, and +30% q/q). The GFH loan book comprises corporate borrowers, and its exposure to retail loans is only through its subsidiary, Khaleeji. GFH's real estate portfolio grew by +36.4% y/y and +11% q/q, focusing on acquiring developmental property (+73.9%y/y and 25.4% q/q), indicating its intent to focus on build-to-sell projects in Saudi Arabia and Bahrain in the logistics and residential sectors, giving us visibility on the revenue for the IB segment pipeline for FY25 and FY26.

Low loan loss coverage reflects strong collateral: Stages 1, 2, and 3 loans make up 84.2%, 8.4%, and 7.4% in Q1 25, respectively, compared to 82.9%, 9.9%, and 7.24% at YE 24. Coverage ratios remain suboptimal, with i) Stage 3 coverage at 21.6% for Q1 25A vs.27.2% for FY24 (vs. 32.5% in FY23), ii) Stage 2 coverage is at 5.7% vs. 5.9% for FY24 (vs. 9.0% in FY23), iii) Stage 1 coverage is at 0.22% for Q1 25A vs. 0.2% FY24. Based on our stress test, which is 1% of stage 1, 12% of stage 2, and 60% of stage 3, indicates a provisioning gap of around c. USD 77.8m, at 7.3% of NAV and 3.3% of the loan portfolio. CoR was very low in Q1

GFH's USD 3.6bn Sukuk book remains largely investment-grade, with the majority of holdings classified as Stage 1 & 2. The Stage 3 sukuk exposure is minimal at USD 3.5m and is fully covered (100% provisioned). GFH benefits from being domiciled in Bahrain, as Bahraini sovereign Sukuks held in its treasury portfolio are assigned a zero-risk weight under regulatory frameworks. The zero-risk weight reduces the GFH's risk-weighted assets (RWA), which supports a lower capital charge uplift in treasury income.

Capital ratios remain robust on the back of lower (-0.72% q/q) RWAS: GFH operates at CET1 and CAR of 15.62% and 16.27% Q1 25, respectively, compared to 16.4% and 17.03% YE24. RWAs decreased by -0.7% q/q, but increased by +10.4% y/y in Q1 25, mostly related to increased risk-weighted credit assets such as financing contracts, which increased by 26.2% y/y. The asset/equity ratio is 12.4x while net loan/equity remains 6.3x. GFH reported an NSFR and LCR of 133% and 210%, respectively, offering some room to optimize its net interest margins.

GFH's quasi-equity expanded +27.6% q/q and +3.6% y/y to USD 3.80bn as of Q1 2025. GFH utilises sharia-compliant participatory capital, primarily via Wakala and Mudaraba structures, to fund balance sheet expansion, while avoiding core equity dilution. Quasi-equity now contributes approximately 36.2% of GFH's total funding base in Q1 25 vs. 38.8% in Q1 2024. The CoF for Quasi equity increased to 6% in Q1 25 vs. 4.9% in Q1 24 on a higher allocation of net income to the Quasi shareholders. This mitigates the impact of interest rate shocks.

BUY USD 0.41/ AED 1.51/ Kwd 0.13

Banks / BAHRAIN

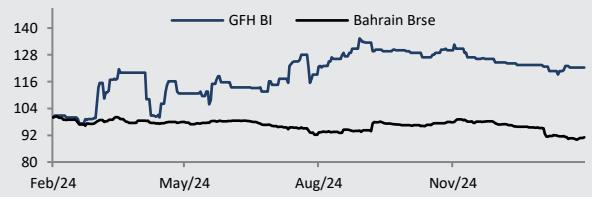
Bloomberg code	GFH BI
Market index	Bahrain Brse
Target Price	0.41
Upside (%)	34.8

Market data 3/3/2025

Last closing price (USD)	0.32
52 Week range	0.3-0.4
35Market cap (USD m)	1,226
Free float (%)	89%

Year-end (local m)	2023	2024	2025e	2026e
Revenue	273	369	373	388
Pre-provisioning profit	91	117	171	173
EPS	0.03	0.03	0.04	0.04
P/E (x) (mkt price)	11.9	10.3	7.7	7.6
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	1.3	1.1	1.1
P/TBVPS (x) (mkt price)	1.2	1.3	1.1	1.1
DPS	0.02	0.02	0.02	0.03
Div. yield (%)	5.0	5.3	6.2	8.1
RoAA (%)	1.0	1.1	1.4	1.4
RoRWA (%)	2.0	1.8	2.2	2.2
RoATE (%)	10.4	12.0	15.5	14.5
RoEcC (%)	14.0	13.6	17.5	17.0
RAROC (%)	14.0	13.5	17.8	17.3
Net LtD ratio (%)	42.1	62.6	43.4	43.3
Risk Weighted Assets (bn)	5.2	6.6	7.1	7.4
Core Equity T1 ratio (%)	21.0	14.7	16.4	16.9
Tier 1 capital ratio (%)	19.7	16.4	16.5	17.0
Total capital ratio (%)	21.0	17.3	17.4	17.8
NPL ratio (%)	7.9	8.0	8.0	8.0
Coverage ratio (%)	56.8	39.6	43.5	47.4
Number of shares	3,833	3,833	3,833	3,833

Price Performance



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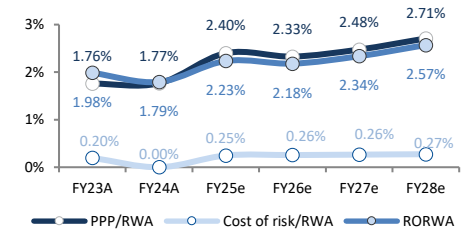
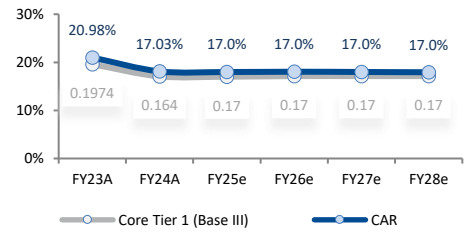
Abacus *Arqaam Capital Fundamental Data*

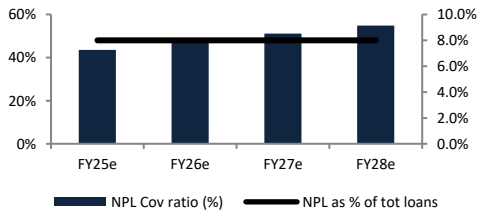
Profitability



Capital Ratios



Credit Quality



GFH Financial Group

Year-end	2023	2024	2025e	2026e	2027e	2028e
Performance analysis						
Asset yield (%)	6.06	5.84	6.50	6.40	6.40	6.20
Cost of Funds (%)	5.97	6.63	6.20	6.00	5.80	5.50
Cost / Income (%)	66.6	68.4	54.0	55.4	54.5	52.8
Fees & Commissions / operating income (%)	10.0	6.1	8.8	9.3	9.4	9.4
Trading gains / operating income (%)	91.6	93.6	76.7	84.5	79.2	74.7
RoATE (%)	10.4	12.0	15.5	14.5	15.1	16.1
Pre-prov. RoATE (%)	11.4	12.1	16.5	15.6	16.2	17.2
RoAA (%)	1.0	1.1	1.4	1.4	1.5	1.6
Revenue / RWA (%)	5.26	5.59	5.22	5.22	5.44	5.74
Costs / RWA (%)	3.50	3.82	2.82	2.89	2.97	3.03
PPP / RWA (%)	1.76	1.77	2.40	2.33	2.48	2.71
Cost of Risk / RWA (%)	0.20	-	0.25	0.26	0.26	0.27
RoRWA (%)	1.98	1.79	2.23	2.18	2.34	2.57
RoRWA (%) (adj. for gross-up of associates)	1.98	1.79	2.23	2.18	2.34	2.57

Year-end	2023	2024	2025e	2026e	2027e	2028e
Asset Quality						
Provisions charge / avg. gross loans (%)	0.7	0.6	0.8	0.8	0.8	0.8
Past due not impaired / gross loans (%)	4.0	3.4	2.9	3.2	3.5	3.8
NPL / gross loans (%)	7.9	8.0	8.0	8.0	8.0	8.0
NPL coverage ratio (%)	56.8	39.6	43.5	47.4	51.2	54.9
Provisions / avg. gross loans (%)	4.0	3.4	2.9	3.2	3.5	3.8
Provisions charge / operating income (%)	11.2	-	10.3	11.0	10.7	10.1

Year-end	2023	2024	2025e	2026e	2027e	2028e
Funding and Liquidity						
Net Loans / Deposits (%)	42.1	62.6	43.4	43.3	43.2	43.0
Cash and interbank / assets (%)	3.4	(5.7)	7.5	9.9	12.2	12.6
Deposits / liabilities (%)	36.4	33.2	49.3	51.4	53.5	55.8

Year-end	2023	2024	2025e	2026e	2027e	2028e
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	21.0	14.7	16.4	16.9	17.2	17.6
Tier 1 ratio (%)	19.7	16.4	16.5	17.0	17.3	17.7
Total capital ratio (%)	21.0	17.03	17.4	17.8	18.2	18.5
Tangible equity / assets (%)	9.7	10.1	10.2	10.5	10.8	11.2
RWA / assets (%)	46.6	54.5	62.2	62.3	62.4	62.8

Year-end	2023	2024	2025e	2026e	2027e	2028e
Growth						
Revenues (%)	23.2	35.5	0.9	4.2	8.7	10.3
Cost (%)	22.6	39.2	(20.3)	6.9	6.9	6.9
Pre-Provision Operating Profit Growth (%)	24.3	27.9	46.9	1.0	10.9	14.5
Provisions (%)	47.2	(100.0)	-	8.0	8.0	8.0
Net Profit (%)	14.0	22.13	34.6	1.6	11.7	15.1

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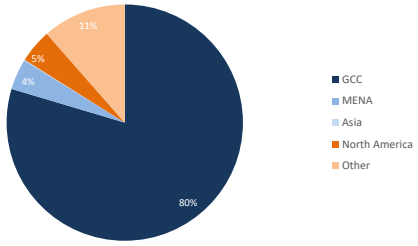
Abacus *Arqaam Capital Fundamental Data*

Company Profile

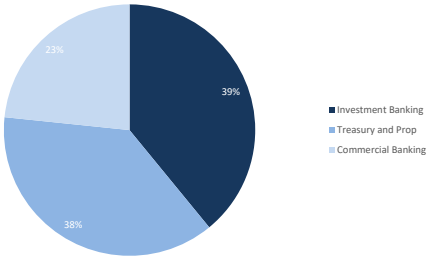
GFH is a Bahrain-domiciled Sharia-compliant financial group that is focused on investment banking, treasury and proprietary investments and commercial and retail banking in Bahrain via Khaleeji Bank BSC (Khaleeji)

GFH Ratings were affirmed by Fitch at "B"; Outlook is stable.GFH is listed on four stock exchanges.

Geographical breakdown



Revenue Breakdown



Management	
CEO	Hisham Ahmed Al Rayes
CFO (Interim)	Bhaskar Mehta
COO	Salah Abdulla Sharif

Major Shareholders	
Keypoint Trust	8.5%
Ahmad bin Mohamed Al Qassimi	5%

GFH Financial Group

Year-end	2023	2024	2025e	2026e	2027e	2028e
Income statement (USDmn)						
Fee income	**27**	**22**	**33**	**36**	**40**	**44**
Net investment income	239	307	238	273	277	288
Other operating income	50	184	191	169	173	184
Total operating income	273	369	373	388	422	465
Total operating expenses	**181**	**253**	**201**	**215**	**230**	**246**
Pre-provision operating profit	91	117	171	173	192	220
Net provisions	**10**	**-**	**18**	**19**	**21**	**22**
Other provisions / impairment	10	-	11	11	11	11
Operating profit	71	117	143	143	161	186
Associates	**35**	**30**	**23**	**25**	**28**	**31**
Pre-tax profit	105	129	166	169	188	217
Taxation	**-**	**-**	**-**	**-**	**-**	**-**
Net profit	105	129	166	169	188	217
Minorities	**2**	**10**	**7**	**7**	**8**	**9**
Others	-	-	-	-	-	-
Attributable net profit	103	119	160	162	181	208
Diluted EPS	**0.03**	**0.03**	**0.04**	**0.04**	**0.05**	**0.05**
DPS	0.02	0.02	0.02	0.03	0.03	0.03
BVPS	0.26	0.26	0.28	0.30	0.32	0.35
Tangible BVPS	0.26	0.26	0.28	0.30	0.32	0.35

Year-end	2023	2024	2025e	2026e	2027e	2028e
Balance sheet (USDmn)						
Gross loans and advances	**1,609**	**2,115**	**2,284**	**2,467**	**2,664**	**2,877**
Less: loan loss provisions	72	57	80	94	109	126
Net loans and advances	1,537	2,058	2,205	2,373	2,555	2,751
Cash and central bank	377	460	514	749	995	997
Due from banks	-	-	-	-	-	-
Investment, net	7,806	7,282	7,320	7,319	7,308	7,545
Fixed assets, net	275	57	286	297	309	321
Other assets	1,126	1,173	1,147	1,193	1,241	1,290
Total assets	**11,121**	**11,031**	**11,472**	**11,931**	**12,408**	**12,905**
Customer deposits	3,655	3,289	5,076	5,482	5,921	6,394
Due to banks	-	1,084	(352)	(428)	(515)	(633)
Debt	4,448	4,594	4,594	4,594	4,594	4,594
Other liabilities	1,945	948	986	1,025	1,066	1,109
Total liabilities	**10,047**	**9,916**	**10,305**	**10,674**	**11,066**	**11,465**
Total equity	**1,074**	**1,115**	**1,167**	**1,257**	**1,342**	**1,440**
Risk Weighted Assets (bn)	5	7	7	7	8	8
Average Interest-Earning Assets	6,776	7,209	7,339	7,482	7,837	8,206
Average Interest-Bearing Liabilities	7,590	8,535	9,143	9,484	9,824	10,178
Common shareholders	990	981	1,076	1,161	1,243	1,337
Core Equity Tier 1 (Basel III)	1,016	1,073	1,167	1,253	1,335	1,428
Tier 1 capital	1,023	1,080	1,175	1,261	1,342	1,436

Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Abdullah Abbas
abdullah.abbas@arqaamcapital.com

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Maintain Buy at TP of USD 0.41 or AED 1.51/share; we highlight GFH as an attractive RoE expansion story, potential cross-listing in KSA, and a cash dividend yield of 5.2%, now paid semi-annually. GFH offers a RoE of 12-16% in the medium term through i) Expanding IB platform on the back of investments in developmental properties, ii) lower interest rates, iii) gradual improvement in the deal flows, iv) regulatory arbitrage, benefiting from zero risk weighting for its high yielding treasury book of USD 4.8bn. GFH trades at a FY 25e P/E of 9.7x and P/B of 1.1x. The next catalysts are expanding the IB platform, growing commercial banking performance (on lower CoF), and potential KSA cross-listing.

Exhibit 1: Q1 25 A Preliminary Results:

(USDm)	Q1 25A	ACe	vs. ACe	Q1 24A	Δ% y/y	Q4 24A	Δq/q
Revenue By Segment							
IB Revenue	67	57	*17%*	46	*45%*	47	*42%*
Commercial Banking	40	23	*75%*	34	*17%*	37	*9%*
Proprietary & Treasury	64	112	*(42%)*	83	*(22%)*	106	*(39%)*
Total Revenue	171	191	*(11%)*	163	*5%*	189	*(10%)*
Expenses By Segment							
IB	53	40	*34%*	33	*61%*	55	*(3%)*
Commercial Banking	27	16	*71%*	24	*13%*	27	*(0%)*
Treasury and Property	54	94	*(43%)*	61	*(13%)*	78	*(31%)*
Total Expenses	134	150	*(10%)*	119	*13%*	161	*(16%)*
Impairment	6			14		4	
Net income	**31**	**42**	***(26%)***	**30**	***1%***	**33**	***(7%)***
Attributable net profit	**30.14**			**27.135**	***11.1%***		
Cost to Income	78.6%	78.3%	0.3 ppts	72.9%	5.7 ppts	84.9%	-6.3 ppts
ROE	12.6%	14.6%	-3.3 ppts	11.1%	0.1 ppts	12.1%	-1.1 ppts
ROA	1.1%	1.4%	-0.3 ppts	1.1%	0.0 ppts	1.1%	-
NPm	18.0%	21.7%	-3.7 ppts	18.6%	-0.7 ppts	17.4%	0.5 ppts

Source: Arqaam Capital Research, Company Data

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Exhibit 2: Valuation Table: (USD m)

Year-end	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e	perp	subtotal	% of total
1. DCF																
Net profit	217	107	114	66	45	84	90	103	117	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	107	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	7.1%
Perpetual growth rate (nominal GDP)														2.5%		
Terminal Value														598		
Terminal value discounted															325	20.5%
Required Capital															622	39.3%
Value of the bank operations															**1,059**	**66.8%**
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	1,308	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	1,077	1,147	1,228	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**	**24.7%**
3. Other adjustments																
Real Estate hidden value															122	7.7%
Underprovisionning vs. arqaam acid test (conservative)															(53)	
Total adjustments															**69**	**4.4%**
4. Dividends															**65**	**4.1%**
Total Fair Value															**1,584**	**100%**
Fully diluted number of shares															3,833	
Fair value per share															**0.41**	
Current share price															**0.31**	
Upside															**33.3%**	
Implied P/E (x)	7.3	14.8	13.9	24.0	35.1	18.8	17.6	15.4	13.6	11.4	9.2	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

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