

Key Investment Highlights:

We initiate coverage on **GFH Financial Group (GFH/The Group)** with a **Valuation** of **AED 1.44 per share**. GFH is a Bahrain-based financial group with diversified offerings across investment banking, real estate, treasury activities and commercial banking through Khaleeji Commercial Bank. **Our investment view** is supported by:

- Global expansion with new partnerships
- Stable revenue from the core business
- Khaleeji Commercial Bank remains a key investment as GFH recently raised its stake from 69.1% to 85.14% in 2Q22
- Spin-off of real estate to maximize returns and free-up capital
- Strong future growth momentum with continuous strategic initiatives

Global expansion with new partnerships:

GFH took several steps to increase its investment in the developed markets with stable economies. The Group entered into a strategic partnership with companies across the UK and the USA to build strong relations. These partnerships and tie-ups will provide stable returns over a long period to the Group. GFH has strong investments in the logistics sector in USA where it has provided leased facilities to companies like Amazon and Michellin. GFH's Private Equity team focuses on downturn-resistant sectors. The Group is looking to invest in sectors that are least impacted by recession or due to an uncertain event. This defensive approach limits the risks or losses associated with investments and maximizes the returns to the investors. GFH is also investing in technology-enabled businesses to benefit from digitalization.

Stable revenues from core business:

Income from treasury and portfolio investment is continuously providing stable profits to the Group. Treasury and other income contributed 40% to GFH's revenue in FY2020 and FY2021. The investments in these segments are more inclined towards sovereign government debt, resulting in low defaults. Revenue from Treasury Segment grew 23% to USD 158 Mn in FY2021 whereas revenue from Investment Banking rose 37% to USD 110 Mn in FY2021. The investment banking income contributed 25% and 28% to GFH's total revenue in FY2020 and FY2021 respectively. The Group also co-invests along with its investors in the same fund to gain trust and show matching interests in the investments.

Khaleeji Commercial Bank a key investment:

Khaleeji Commercial Bank performed very well with stable returns for the last four years by contributing 18% to GFH's revenue in FY2021 and more than 20% contribution from FY2018 to FY2020. GFH increased its stake in Khaleeji commercial bank from 81.17% to 85.14% in June 2022. The Bank has strong liquidity buffer with adequate capital to grow. The Bank's total deposits increased 17.65% to BHD 911.55 Mn in FY2021. The Group raised an excess of USD 3.4 Bn deposits which helped to increase the liquidity of GFH in 2021. Moreover, the excess money will help GFH's subsidiary Khaleeji Commercial Bank also to boost its lending facility which will increase its revenue. In terms of revenue and future growth potential, GFH considers KHC to be its most important subsidiary. Bahrain successfully mitigated the COVID-19 crisis' negative effects on the country's health and economy by implementing a noteworthy pandemic policy response. Bahrain's economic and external risks reduced by the revival of fiscal reform momentum and rising oil prices. In FY2021, the GDP of Bahrain expanded by 2.2% and is further expected to grow 3.4% in FY2022. This positive economic momentum in the Bahraini economy will benefit Khaleeji Commercial Bank and the GFH Group in near future.

A spin-off of real estate business leading to strong capital levels:

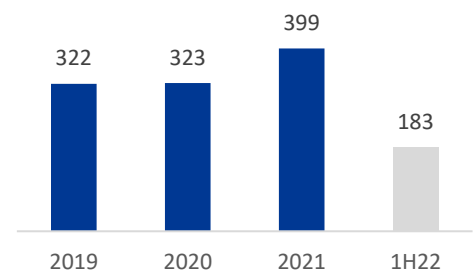
In August 2021, GFH received board approval to spin off its real estate business. The transaction was completed in March 2022. The spin-off included the sale of a portfolio of real estate assets by GFH and KHC to Infracorp. Infracorp will hold over USD 1.4 billion of GFH's real estate and infrastructure assets. The consideration for the sale included an equity issuance of USD 200 million. In addition, USD 900 million of trust certificates of Infracorp which could be later exchanged into shares. The transfer of the real estate business will result in a decline in risk-weighted assets of the Group and boost capital to pursue other strategic objectives.

Initiating Coverage Sector: Financial Services

Analyst Name: Ahmad Banihani

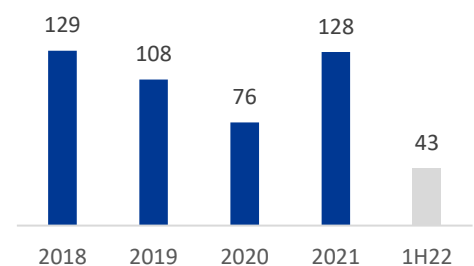
Rating	
Current Market Price (AED)	1.11
Target Price (AED)	1.44
Upside/(Downside)	+29.7%
Market Cap (AED, Bn)	4,254

GFH Financial Group Revenue (USD Mn)



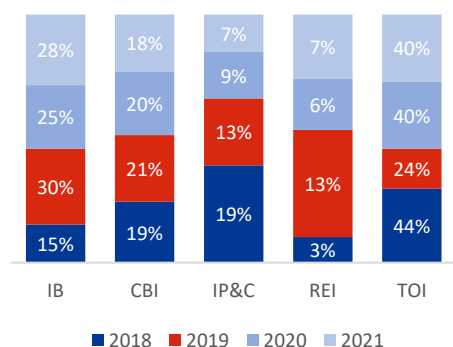
Source: Company Information

GFH Financial Pre-Provisioning Profit (USD Mn)



Source: Company Information

GFH Financial Group Segment Information



Source: Company Information

Abbreviations

IB – Investment Banking Income
CBI – Commercial Banking Income
IP&C – Income from Proprietary & Co-Investments
REI – Real Estate Income
TOI – Treasury & Other Income

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Key Investment View

Plans to increase AUM from USD 15.5 Billion to USD 25.0 Billion in medium term

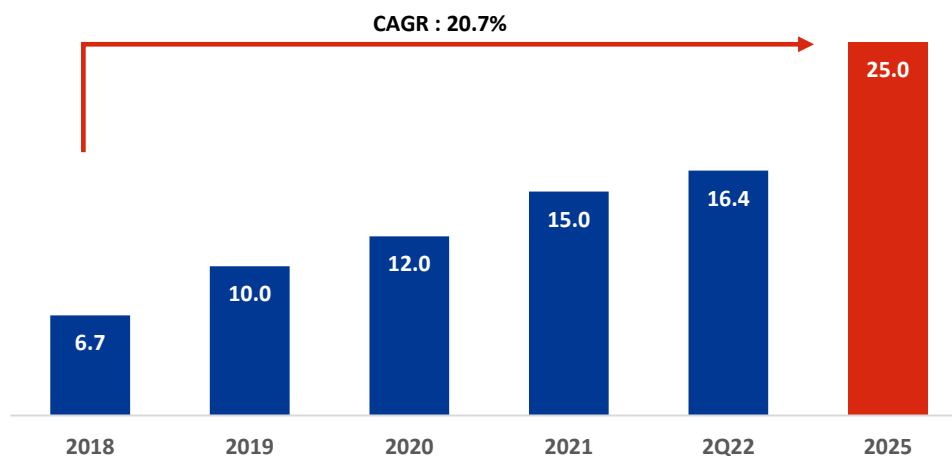
Closed three Private Equity deals, executed six real estate investments and exited three investments in FY2021

Assets Under Management

GFH Financial Group successfully raised its assets under management by USD 2 Bn in FY2021 and plans to increase its asset base and AUM to USD 25 Bn by FY2025 through both organic and inorganic growth. The Group follows a dynamic strategy to invest in domestic as well as international markets across multiple sectors which include healthcare, real estate, logistics, hospitality, education, retail, technology, and treasury assets and inorganic growth through the Strategic acquisitions of premier Asset Managers

The Group closed a total of nine deals which includes three from private equity, and six from real estate investments, and have exited three investments. This resulted in exceptional growth in Investment Banking revenue which rose 36.9% to USD 110.4 Mn in FY2021. GFH earned healthy asset management fees and deal-related income over these deals and investments. GFH's strategic investments and acquisitions domestically, as well as internationally, aim at earning strong yields to earn a strong return for its investors. GFH is creating a global portfolio in yielding real estate assets. GFH is adding value by diversifying its investment and investing in regions like the United States, United Kingdom, and Western Europe, with a focus on acquiring a portfolio of assets generating stable returns on investments.

Figure 1: GFH Asset Base and Assets Under Management (USD Bn)



Source: Company Information

Expanding Global Footprints with New Partnerships and Tie-ups

To expand its presence in the UK acquired 60% stake in Roebuck Asset Management UK, majority stake in SQ Asset Management in US, entered into strategic partnership with Schroders Capital in US, and 60% stake in Trust Vision LLC in UAE

Investing in Stable and Defensive Sectors

GFH Financial Group is investing in the United Kingdom and the United States region by partnering with asset management companies to invest across real estate and logistics sectors. Roebuck Asset Management is GFH's strategic partner in the United Kingdom which will increase GFH's presence in the country. GFH also provides leased facilities to companies like Amazon, FedEx, and Michelin in the United States.

The Group also partnered with Schroders Capital, a private investment arm of Schroder plc. It started by co-investing in a global healthcare education provider established in the region of Europe and Latin America. Schroders Capital has over USD 70 Bn of assets under management while the parent company manages over USD 968 Bn worth of assets for their clients. The strategic partnership aims at increasing the reach in private equity markets across the United States and Europe. On 6 July 2022, GFH Financial Group announced the acquisition of a USD 300 million student housing portfolio linked with several top-rated universities situated in Texas, Michigan, and Missouri in the United States. The transaction is made in collaboration with GFH subsidiary Student Quarters, an Atlanta-based student housing specialist. GFH acquired SQ Asset Management in the United States to launch its operations in the country. SQ Asset Management is focused on the real estate sector in student housing with more than 32 housing properties. SQ has more than 10,000 beds for student housing across public universities in the United States. The agreement will add 180 employees in the field of real estate for GFH.

GFH also launched a diversified Sukuk fund of USD 100 Mn in February 2022, which includes some fixed-income investments mainly from the GCC region governed by Sharia principles. The fund will hold various securities including, sovereign, quasi-sovereign, corporate sukuk and sukuk related securities primarily from the GCC region. GFH Financial Group announced that it has increased its stake in GB Corp B.S.C. from 50.41 % to 62.91 % through strategic swaps for USD 1.7 million. The two parties signed an agreement on 31 March 2022. GFH also acquired a 60% stake in Trust Vision Investment LLC, a multi-specialty healthcare clinic. The asset value of the deal was more than USD 100 Mn. The acquired company provides healthcare services across UAE with 19 operating clinics as of the acquisition date.

A Spin-off of Real Estate and Infrastructure Assets will Boost Capital Levels

GFH spun-off infrastructure and real estate assets worth USD 1.1 billion in a new entity called Infracorp

New Entity Infracorp will Hold Infrastructure and Real Estate Assets

In August 2021, GFH received board and Central Bank of Bahrain approval to spin off its infrastructure and real estate business to a new entity. The transaction was completed in March 2022. The spin-off included the sale of a portfolio of real estate assets by GFH and KHC B to Infracorp. The real estate assets primarily included land bank and development assets including infrastructure investments. Infracorp will hold over USD 1.4 billion of GFH's real estate and infrastructure assets. The consideration for the sale included an equity issuance of USD 200 million. In addition, USD 900 million of trust certificates of Infracorp will be later exchanged into shares of Infracorp post listing. The transfer of the real estate business will result in a decline in risk-weighted assets of the Group and boost capital to pursue other strategic objectives. Post this change, Infracorp will be independent of the banking regulations which were earlier governed by

the Central Bank of Bahrain. Infracorp is set to manage a USD 3 billion portfolio of infrastructure assets and aims at investing in technology and logistics sectors, that promote sustainability and develop social infrastructure assets in the healthcare and education sector.

The Group transferred infrastructure and real estate assets worth USD 1.4 bn in 1Q22 from its balance sheet to Infracorp. After the transfer of these assets, GFH sold 60% stake in Infracorp to third-party investors thereby, deconsolidating from GFH balance sheet.. Infracorp will longer be a subsidiary of GFH and will be accounted as an equity accounting investee. Immediately after this transfer, the Group risk-weighted assets declined from USD 8.3 billion in FY2021 to USD 7.7 billion in 2Q22. Thus, CET 1 ratio rose from 12.86% in FY2021 to 13.03% in 2Q22. The capital adequacy ratio also expanded from 13.51% in FY2021 to 13.64% in 2Q22.

Treasury and Proprietary Investments Provide a Stable Income Stream

Stable Revenues from Core Businesses

Constantly contributing stable income to the group's top line

The Treasury team is responsible for investing the Group's liquidity in different capital market investment instruments, maintaining the Group's overall liquidity, and providing treasury-related services. Proprietary Investments include non-banking subsidiaries and equity-accounted investees over whom the Group has significant influence. Treasury and proprietary investments accounted for the group's 40% of total operating income generated out of the portfolio of USD 3.1 Bn. The investments are mainly focused on fixed-income investments which decrease the risk weightage and help the Group to tap funding in UAE and KSA wholesale funding market. While the Group's propriety investments are diversified across education, hospitality, financial services, and leisure. The main line of investment for the treasury and capital markets are Sukuk, Murabaha and Wakala, and Alternative Investments. Revenue from Treasury grew 22.6% YOY to USD 158 Mn in FY2021 whereas revenue from Investment Banking rose 36.9% YOY to USD 110 Mn in FY2021.

Litigation Risk

GFH Group is party to number of litigations and claims filed against QECHC, Tunis Bay Alliance, and Saleh Al-Abdalo Sons group

GFH Made Provision Against These Litigations

The Group is a party to several litigation and claims filed against it in connection with the projects promoted and certain transactions. However, the outcome of this litigation is still underway and GFH made appropriate provisions against these litigations. GFH filed a claim against QECHC and others related to Energy City Qatar Project. The claim is filed to recover an amount of around USD 30.7 million with a compensation of USD 5.0 million for the loss of GFH's shares in the project. The legal proceedings, in this case, are still going.

Tunis Bay Alliance Golf Project started an arbitration process against GFH and others at the International Court of Arbitration, Paris. The claim is to recover USD 48.1 million according to the shareholder's agreement. GFH and others are going to counterclaim and try to prove the accusations false.

Company Description

Known for Innovative Islamic Banking services across the globe

GFH Financial Group

GFH Financial Group is Bahrain-based financial group with diversified offering across investment banking, treasury activities, real estate and commercial banking services. The business operations of GFH are conducted in accordance with the Islamic Sharia principles across all the Group business segments. The Group raised over USD 15 Bn in assets and funds under management from its strong clientele across its four segments: Investment Management, Real Estate Development, Commercial Banking, and Treasury & Proprietary Investments. GFH operations are primarily focused in GCC region along with a presence in North Africa and India. The Group derives 27.7% of the income from investment banking, 18.0% from commercial banking, 14.7% from real estate and proprietary investments and the remaining 39.6% from treasury activities in FY2021.

GFH operates through 10 subsidiaries as of 30 June 2022. Among them, Khaleeji Commercial Bank (KHCB) remains the most important subsidiary. The activities of the KHCB are regulated by the Central Bank of Bahrain and supervised by the Shariah Supervisory Board. It also holds strategic investments in the US, Europe, and the UK. Since FY2004, GFH is listed on the Bahrain Bourse, Boursa Kuwait, and Dubai Financial Market as 'GFH'. Recently, it also started trading on Abu Dhabi Stock Exchange. Additionally, GFH issued Sukuk in FY2020 with a maximum USD 500 Mn issue size that is listed on the London Stock Exchange and NASDAQ Dubai.

Figure 2: Principal Subsidiaries

Investee name	Country of incorporation	Activities	Ownership as of 2Q22
GFH Capital Limited	UAE	Investment management	100.00%
GFH Capital S.A.	Saudi Arabia	Investment management	100.00%
Khaleeji Commercial Bank BSC ('KHCB')	Bahrain	Islamic retail bank	85.14%
Al Areen Project companies	Bahrain	Real estate development	100.00%
GBCORP BSC (c) (GBCORP)	Bahrain	Islamic investment firm	62.91%
Residential South Real Estate Development Company (RSRED)	Bahrain	Real estate development	100.00%
Britus International School for Special Education WLL	Bahrain	Educational institution	100.00%
Gulf Holding Company KSCC	Kuwait	Investment in real estate	53.63%
SQ Topco II LLC	USA	Property asset management Co.	51.00%
Roebuck A M LLP	UK	Property asset management Co.	60.00%

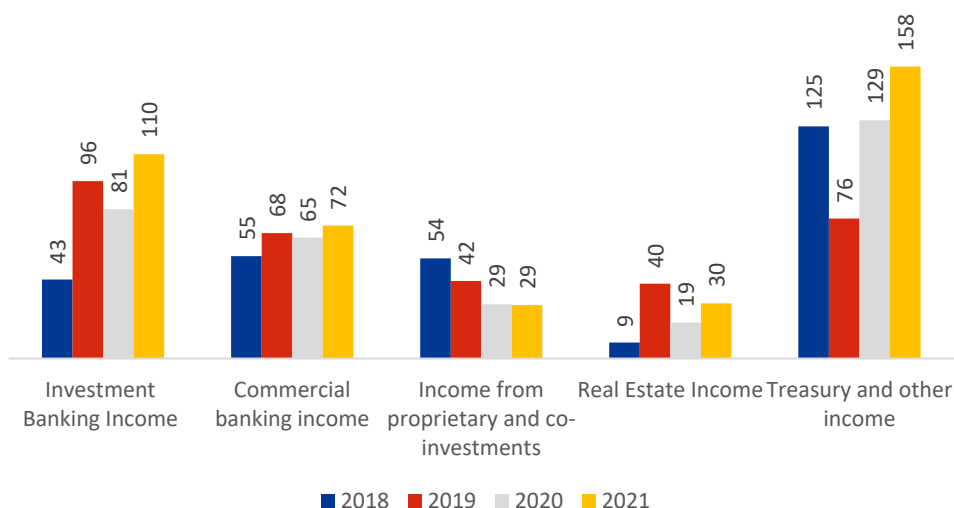
Source: Company Information

GFH operates across multiple segments providing different financial services around the globe

Segment Information

GFH Financial Group operates in five business segments: Investment Banking, Commercial Banking, Proprietary & Co-investments, Real Estate Income, and Treasury. Proprietary and co-investments aim to create a worldwide portfolio for enhanced returns.

Figure 3: GFH Segment Revenue (USD Mn)



Source: Company Information

1) Investment Banking

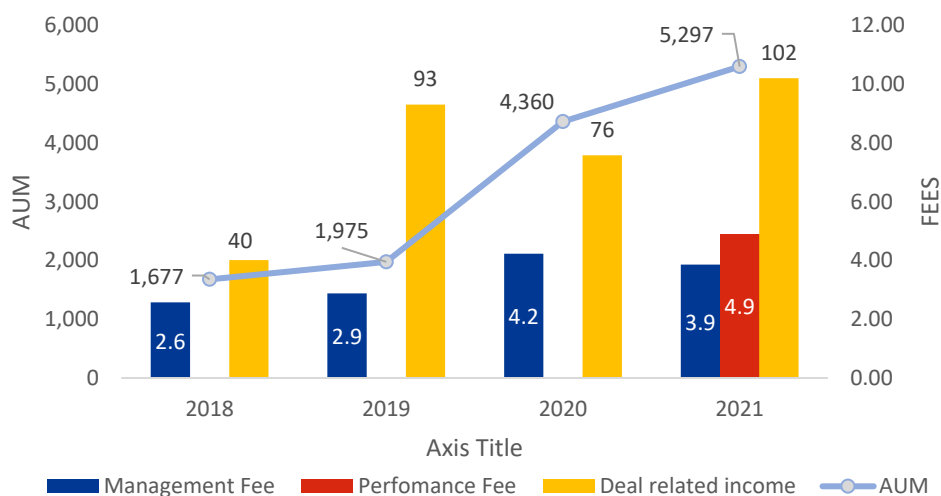
This segment generates 27.7% of the total consolidated revenue in 2021. It recently acquired and partnered with international managers to widen its reach

The investment banking segment focuses on private equity and real estate investment management activities. Private equity activities include the acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The segment also focuses on investing through multiple strategies including, direct investments, co-investments, investments along with a top-tier asset manager, secondaries, strategic GP staking, buyouts and private credit. The emphasis always remains on investing in non-cyclical and downturn resistant sectors with limited downside. The fund is mandated to invest in education, healthcare, consumer-driven, and tech-enabled sector which is expected to benefit from digitization trend. The segment focused on identifying investment opportunities across the globe but mainly in the developed markets. GFH originates deals and places them with institutional and high-net-worth investors, earning the Group placement fees in the process. The segment recently partnered with private markets investment division of Schroders Plc to investments alongside Schroders into a range of mandated sectors. The partnership will boost its reach in international private equity investment deals especially in the Americas and Europe. The Group also co-invests with investors, displaying interest alignment. Investment banking operations contribute significantly to profitability, although it could be unpredictable and dependent on transaction placement and investment exits. Investment management fees are more consistent and recurrent, as they are generated on the management of income-producing real estate investments. GFH presently manages around USD 15.5 bn in assets throughout the Group and aims to reach USD 25 bn in the medium-term, but mostly through inorganic expansion.

The real estate investment management unit is responsible for identifying and managing investments in income-yielding real estate and leased assets in the target markets. The emphasis remains on investing in defensive sectors providing a stable income earning stream including, Logistics, Medical Office Buildings, Multi-Family, Student Housing, Bio/life Sciences Parks, and Select Trophy assets. The goal is to identify investment opportunities in developed markets of North America, UK, and Europe. The segment activities focus on acquiring, managing, and realizing investments to achieve and exceed benchmark returns. Investment banking activities produce fee-based, activity-based, and asset-based income for the Group. Assets under this segment include proprietary investments, private equity, co-investments, and strategic non-banking investments. This segment acquired 60% stake in Roebuck Asset Management which specializes in logistics and real estate manager in the UK. With this acquisition, the Group position will strengthen in the region and gain from the Roebuck deep understanding of the sector. This segment also acquired 51.00% stake in Student Quarters Asset Management, the sixth-largest purchaser of student housing assets in the US. Student Quarters Asset Management is situated in Atlanta which will grow GFH's influence in the US real estate market.

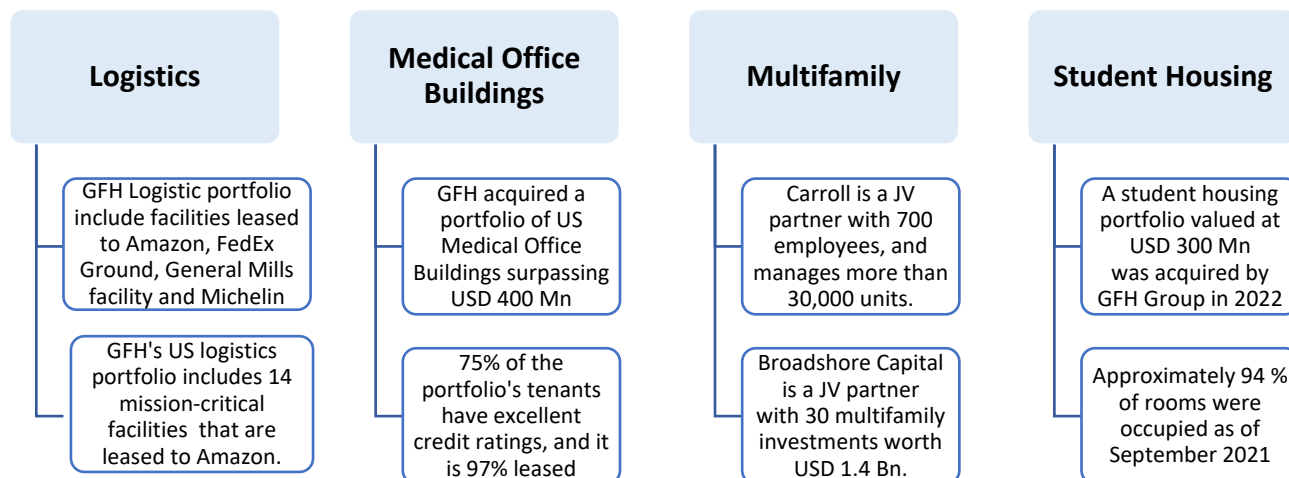
The investment Banking segment earns revenue on the basis of different types of fees charged for the assets managed and deal-related income on acquisitions. The Group charged a management fee of USD 3.9 Mn and a performance fee of USD 4.2 Mn to manage the AUM's amounting to USD 5.3 Bn in FY2021. In addition, its earnings from deal related income rose from USD 76 Mn in 2020 to USD 102 Mn in 2021. Total Investment banking grew 36.9% to USD 110.4 Mn in FY2021. Investment banking income contributed 24.9% and 27.7% to GFH's total revenue in FY2020 and FY2021, respectively.

Figure 4: GFH AUM, Fees & Income (USD Mn)



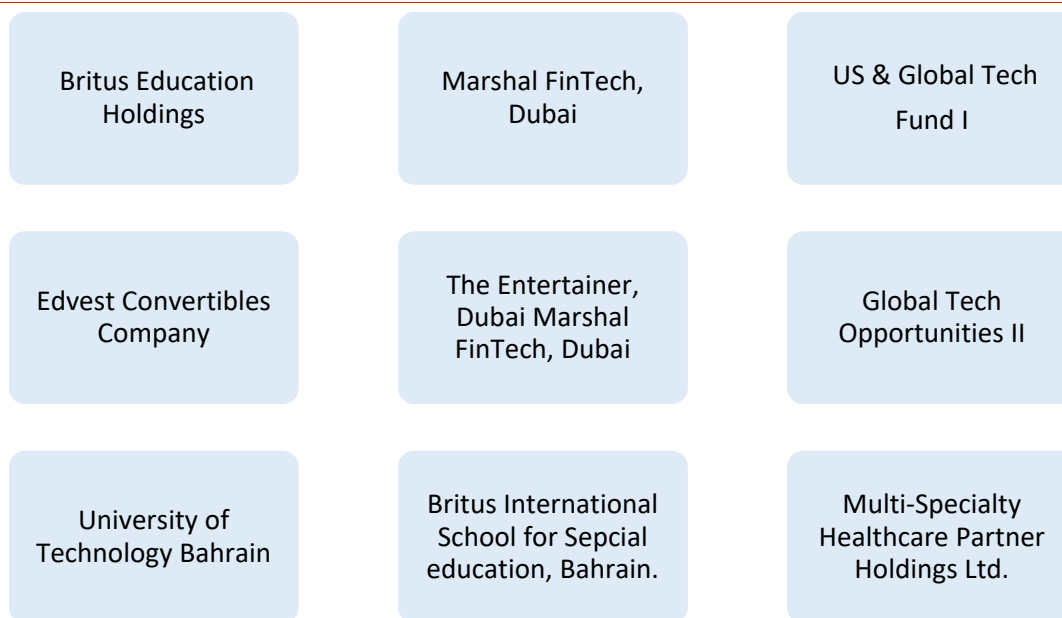
Source: Company Information

Figure 5: Real Estate Investments



Source: Company Information

Figure 6: The existing investments currently managed by the Private Equity team



Source: Company Information

2) Proprietary and Co-Investments

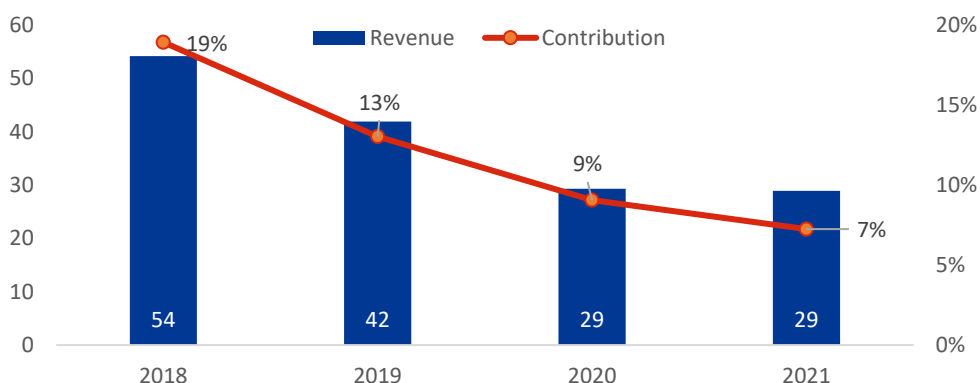
This segment manages GFH's proprietary investments in private firms, investment funds, and financial institutions

This business segment manages GFH's proprietary investments in private firms, investment funds, and financial institutions. The business unit also manages the Group's real estate and associated assets also responsible for making strategic investments across the market. Proprietary Investments include non-banking subsidiaries and equity-accounted investees where the Group holds a significant influence. The segment derives revenue by funding arrangements and restructuring liabilities. The portfolio is diversified with assets across multiple sectors including

hospitality, investment management, leisure, financial services, and real estate. Co-investments are similar investments made by the Group with the client in the products suggested by the Group.

Income from Proprietary and Co-investments declined 1.4% to USD 29 Mn and contributed 7.2% to total revenue in FY2021.

Figure 7: GFH Proprietary and Co-Investments Income (USD, Mn)



Source: Company Information

3) Real Estate Development

GFH launched several infrastructure projects historically in the MENASA region with an estimated value of more than USD 20 Bn

Apart from managing and investing in prime real estate investments, the Group also derives revenue from the income generating properties and by developing properties at designated tracts of land in the GCC region, North Africa and Asia. GFH launched several infrastructure projects historically in the MENASA region with an estimated value of more than USD 20 Bn. Some of these projects were coordinated and completed with various governments. Below mentioned are some of the key projects –

- Bahrain Harbour, Bahrain
- Harbour Heights, Bahrain
- California Village, Dubai
- Reef Marina, Reef Island, Bahrain
- Al Areen, Bahrain

GFH recently transferred its real estate investment worth USD 847.2 Mn to a new entity, Infracorp. Infracorp is a new spin-off entity which will hold infrastructure and development assets of the Group. The Group is planning to transfer real estate and infrastructure assets from the entire Group entities to Infracorp. After the transfer of these assets, GFH will hold 40% interest in the new entity and remaining stake is sold to third-party investors.

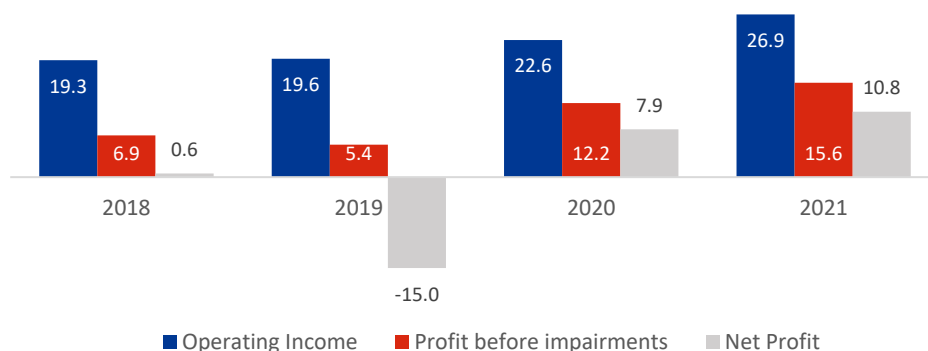
GFH revenue from this segment grew at a CAGR of 50.8% in 2018 to USD 30 Mn in 2021. This segment constitutes 7.5% of total revenue in FY2021.

GFH hiked stake in KHCB
from 69.06% in 2021 to
85.14% in 2Q22

4) Commercial Banking

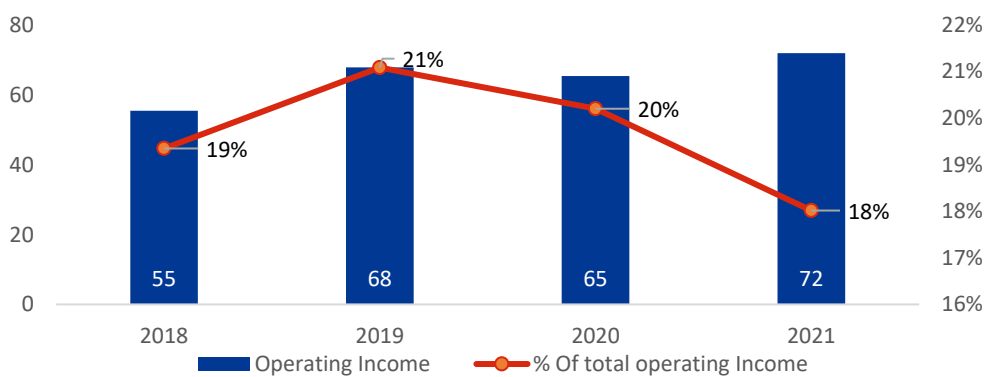
The Commercial Banking arm of GFH Financial Group is represented by Khaleeji Commercial Bank BSC (KHCB). KHCB is headquartered in Bahrain and supervised by Central Bank of Bahrain under Shariah Supervisory Board. The Bank was established in 2004 and is listed on Bahrain Stock Exchange. KHCB provides a range of innovative and high-quality products and services to retail customers, high-net-worth clients, corporate entities, and financial institutions. These services include retail & corporate banking, wealth management, project financing structured product, and other services. The bank also manages its own treasury and proprietary investment book within this operating segment. The commercial banking segment exhibited strong performance over the last four years and by contributed 18% of total operating income in FY2021. GFH increased its shareholding in 2022 and now owns 85.14% of stake of the Bank. KHCB's operating income grew 18.8% to BHD 27 Mn in FY2021 driven by a growth in funded and non-funded income partially offset by an increase in funded expense. Operating expense rose 8.6% YOY to BHD 11 Mn thus, pre-provisioning profit grew by a strong 27.4% to BHD 16 Mn in FY2021. Provisioning expenses fell 10.2% leading to a gain in net income by 36.8% to BHD 11 Mn in FY2021. The Bank's liquid assets account for 27.6% of the total assets in FY2021 with a liquidity ratio of 177.58%. The subsidiary held a strong Capital Adequacy Ratio of 19.31%.

Figure 8: Khaleeji Commercial Bank (BHD Mn)



Source: Company Information

Figure 9: GFH Commercial Banking Income & Contribution (USD Mn)



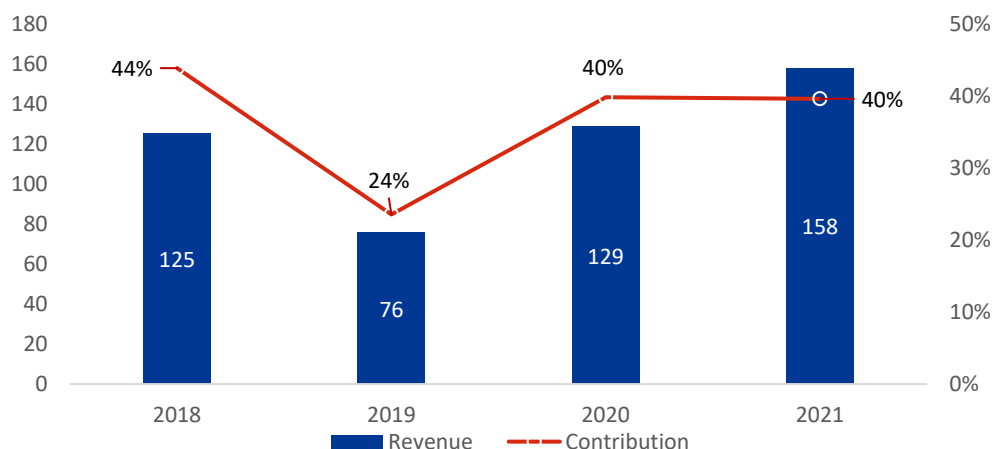
Source: Company Information

GFH's 40% of revenue is generated from the Treasury and other income segment

5) Treasury & Capital Markets

This segment is responsible for the Group's investment managing activities in capital markets, liquidity management and fundraising from debt capital market. The main goal of the segment is to ensure enough liquidity for the Bank while maximizing bottom line which result in alpha generation for shareholders. Investment is primarily made in Interbank Commodities Murabhaa and Wakala, Sukuk and Alternative Investments. Treasury & Capital Markets segment is also responsible for forming crucial alliances with international financial institutions that provide access to the Group to a range of products and services across all key asset classes. This segment focuses on utilizing the Group's liquidity while diligently evaluating risk and return trade-offs, engaging in proprietary book management and trading in regional and international opportunities to capitalize on market opportunities, and optimizing the liquidity available to the Group as well as providing necessary funding if needed. Treasury operations are the most growing area and a major source of profit. It contributed to nearly 40% of the Group's revenue in FY2021. The treasury portfolio of grew at an exponential rate and reached USD 3.09 Bn by end of FY 2021.

Figure 10: Treasury Income & Contribution (USD Mn)



Source: Company Information

Valuation Methodology

Target Fair Value Analysis

We arrive at a fair value of AED 1.44/USD 0.39 per share based on a mix of valuation methods

EXCESS EQUITY AND RELATIVE VALUATION

The Group is valued using a mix of **Excess Equity** and **Comparable Company Method (CCM)** to arrive at the fair value of GFH Financial Group. GFH operates through five business segments. The Excess Equity Valuation method is assigned higher weight since it captures the Group's economic profit over a period of time as compared to a single period in CCM valuation. In relative valuation, the PB and PE multiple is used to value the Group segments. The PB multiple is used to value Commercial Banking and Corporate & Treasury segment, while Investment Banking is valued using PE multiple. We choose to value two segments on PB multiple because the companies operating in this industry report their balance sheet at market value as compared to historical cost.

CONSOLIDATED VALUATION

Name of Entity	Valuation (USD, million)	Weight (%)	Total Valuation (USD, million)	Value Per Share (USD)
Value of the firm based on -				
Excess Equity Valuation	1,442	70.0%	1,009	0.26
Relative Valuation (PB)	1,648	30.0%	494	0.13
Blended Equity Value			1,503	
No. of shares outstanding (million)			3,833	
Total Equity Value (USD per share)			0.39	
Total Equity Value (AED per share)			1.44	

The Group's financial performance is analyzed in detail over a period time to value the entity. We have taken a fair estimate across the Income statement and financial position throughout our valuation. The valuation analysis suggests a target value of AED 1.44/USD 0.39 per share.

The weightage assigned to excess equity and relative valuation (CCM) method of the business stands at 70%, and 30%, respectively.

1) Excess Equity Valuation

Based on Excess Equity valuation, we arrive at a fair value of AED 1.44/USD 0.39 per share

For the Excess Equity Valuation, we relied upon historical financial performance of the Group, economic performance of the region in which it operates, and steps taken by management recently to realign the Group objectives to conduct a detailed financial analysis starting from FY2022-26. After considering all these variables, GFH is valued using the excess equity methodology. Based on risk-weighted assets arrived at each year, we have first computed the required capital as per central bank requirements. After that, we applied the cost of equity to compute equity charge on the required capital. Later, the capital surplus is computed after deducting tangible equity from required capital. We have deducted excess return on capital and equity charge from net profit attributable to equity shareholders to arrive at economic profit. Whereas, the return on excess capital is computed by multiplying excess capital with risk free rate.

The minimum capital required by the Central Bank of Bahrain stood at 12.5%. We have applied the Gordon Growth model to calculate Terminal Value and extrapolate the economic profit for last year at a terminal growth rate of 1.5% to perpetuity. To arrive at Ke (Cost of Equity), we have considered the Average Rf (Risk-Free) rate of 6.40%, Average Equity Risk Premium of 5.0%, and the Beta of 1.0. We arrived at the cost of equity of 11.2%.

After that, present value of excess equity and terminal value is added with required capital as of 31 March 2022 to calculate fair value to common shareholders. There are additional adjustments made to arrive at fair value of the Group. We have added capital surplus, dividend and fair value gain from real estate holding to arrive at the fair value. The Group reported fair value of investment property as of 31 December 2021. To compute fair value gain, we have deducted fair value of investment property from reported book value as of 30 June 2022.

	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
All figures in USD million, unless stated					
Net profit	104	107	139	170	200
Excess return excess capital	-7	-8	-9	-12	-15
Adjusted net profit	96	99	130	158	185
Equity charge	-107	-112	-115	-118	-122
Economic Profit	-11	-13	14	40	63
Discounting Factor	0.96	0.87	0.78	0.70	0.63
Present value of excess equity	-11	-11	11	28	40
Total Present value of excess Equity					57
Terminal Value					262
Required Capital (30 June 2022)					958
FV to common shareholders					1,277
Capital surplus					39
Dividend					45
Fair Value gain on real estate					80
Total Fair Value					1,442
Number of shares in (Mn)					3,833
Fair Value per share (USD per share)					0.38
Fair Value per share (AED per share)					1.38

Capital Surplus Calculation

All figures in USD, Mn	2Q22	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
Share capital	977	1,069	1,124	1,195	1,281	1,382
Non-controlling interests	65	57	54	51	48	46
Less Dividend	-45	-50	-52	-68	-84	-99
Tangible Equity	997	1,075	1,126	1,178	1,246	1,330
RWA	7,661	7,708	8,041	8,262	8,500	8,740
Equity as percentage of RWA	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Capital Requirement	958	964	1,005	1,033	1,063	1,092
Capital surplus	121	112	121	145	183	237

Capital Requirement	2Q22	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
Capital Requirement	929	964	1,005	1,033	1,063	1,092
Cost of Equity	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Equity Charges	107	107	112	115	118	122

Fair Value of Investment Property

Book Value of Investment Property (as of 2Q22, USD Mn)	686
Fair value of Investment Property (as of 4Q22, USD Mn)	767
Gain on Fair Value of Investment Property (USD, mn)	80

2) Relative Valuation - P/B and P/E

We are using the P/B and P/E multiple in CCM valuation to value the firm

We are using 2Q22 Book Value of Commercial Banking and Corporate & Treasury to value these segments. Investment Banking is valued based on PE multiple based on FY2022 financial. We have used multiple of global and regional peers to value GFH Financial Group. The peers are considered based on area of operation such as Commercial Banking, Investment Banking and Financial Industry. Since the Group is operating into multiple segments as a result, we have considered peers from different segment to arrive at consolidated equity value.

(All Figures in USD Mn, unless stated)

Name of the segment	Valuation Method	Peer Multiple	PB/PE	Valuation (USD)	% Contribution
Commercial Bank ¹	PB	1.5	856	1,263	76.7%
Investment Bank ²	PE	12.7	44	562	34.1%
Corporate and Treasury ¹	PB	0.9	-199	-178	-10.8%
Equity Value				1,648	
No of shares (Mn)				3,833	
Equity Value (USD per share)				0.43	
Equity Value (AED per share)				1.58	

¹Based on book value of 2Q22, ²Based on PE of FY2022

Peers Valuation

Co. Name	M Cap ¹ (USD, Mn)	P/B			P/E		
		2022	2023	2024	2022	2023	2024
<u>Commercial Bank</u>							
Bank Muscat	6,005	1.1	1.1	1.0	11.9	11.0	10.6
Banque Saudi Fransi	144,148	1.5	1.4	1.3	15.5	12.8	11.0
Dubai Islamic Bank	11,747	1.3	1.2	1.1	9.6	8.5	8.4
Abu Dhabi commercial Bank	16,211	1.1	1.0	0.9	10.1	8.6	8.2
Bank Aljazira	5,129	1.4	1.3	1.2	14.7	12.4	11.0
Qatar Islamic Bank	15,153	2.5	2.3	2.1	15.2	13.6	12.1
Average		1.5	1.4	1.3	12.8	11.2	10.2
Median		1.3	1.3	1.2	13.3	11.7	10.8
Max ²		1.5	1.4	1.3	15.1	12.7	11.0
Min ³		1.2	1.1	1.0	10.6	9.2	9.0

Source: Market Screener, ¹ Market Capitalization, ² Values correspond to Quartile 3, ³ Values correspond to Quartile 1

Co. Name	M Cap ¹ (USD, Mn)	P/B			P/E		
		2022	2023	2024	2022	2023	2024
Investment Bank							
Macquarie group limited	466,344	2.3	2.1	2.0	16.5	15.6	15.0
Piper sandler companies	1,984	1.4	1.3	NA	11.7	10.4	NA
Guotai Junan Securities	18,292	0.9	0.8	0.8	10.0	8.1	7.0
Matsui Securities	1,528	2.6	2.5	2.5	18.1	17.4	17.5
EFG Hermes holdings	750	0.9	0.8	0.7	6.9	5.6	4.7
Flatexdegiro AG	1,237	2.0	1.7	1.4	13.3	9.5	7.2
Average		1.7	1.5	1.4	12.7	11.1	10.3
Median		1.7	1.5	1.4	12.5	10.0	7.2
Max ²		2.2	2.0	2.0	15.7	14.3	15.0
Min ³		1.0	0.9	0.8	10.4	8.4	7.0

Source: Market Screener, ¹ Market Capitalization, ² Values correspond to Quartile 3, ³ Values correspond to Quartile

Co. Name	M Cap ¹ (USD, Mn)	P/B			P/E		
		2022	2023	2024	2022	2023	2024
Treasury and Holdco							
Nomura Holdings	10,984	0.5	0.5	0.5	7.7	7.1	7.0
Canaccord Genuity Group	632	1.0	0.8	0.6	12.7	5.6	4.1
Barclays PLC	33,616	0.5	0.4	0.4	6.6	5.6	5.1
Assetmark Financial holding	1,348	1.2	1.1	NA	13.5	10.2	9.1
PNC financial services	66,185	1.5	1.4	1.3	11.1	9.6	9.5
Insignia Financial	1,207	0.7	0.8	0.8	25.5	25.0	10.8
Average		0.9	0.8	0.7	12.8	10.5	7.6
Median		0.9	0.8	0.6	11.9	8.4	8.0
Max ²		1.1	1.0	0.8	13.3	10.0	9.4
Min ³		0.6	0.5	0.5	8.5	6.0	5.6

Source: Market Screener, ¹ Market Capitalization, ² Values correspond to Quartile 3, ³ Values correspond to Quartile 1

Financials:

GFH Financial Group's balance sheet stood strong with total assets of USD 8.5 Bn in 2Q22 post spin-off infrastructure and real estate assets

GFH de-risked its balance sheet by deconsolidating and transferring a significant portion of the infrastructure and real estate to Infracorp

Capital Base

GFH Financial Group reported a strong trend in assets quality in recent quarters reducing overall credit risk. GFH constantly maintained a robust growth of high-quality liquid assets to support its liquidity position. The Group consistently grew its income-earning assets and deposits across its segments with robust profitability metrics. The total assets of the Group stood at USD 8.5 billion with the treasury portfolio making up 38.9% of total assets in 2Q22. While placements from financial institutions, customer current accounts and equity investment of account holders stood at USD 4.9 billion in 2Q22.

We anticipate the Group to maintain its growth momentum and expand its loan and deposit base further gaining market share across its business segments.

Risk Weighted Average (RWA) and Capital Adequacy Ratio (CAR)

The Group risk-weighted assets comprise credit, operational and market risk. GFH de-risked its balance sheet by spinning off its infrastructure and real estate assets to Infracorp. As a result of this spin-off, GFH risk-weighted assets declined from USD 8.2 Bn in FY2021 to USD 7.4 Bn in 1Q22. Risk-weighted assets stood at USD 7.7 billion in 2Q22. After the transfer of these risky assets, CET 1 ratio rose from 12.86% in FY2021 to 14.30% and 13.03% in 1Q22 and 2Q22, respectively. CAR also jumped from 13.51% in FY2021 to 14.99% and 13.64% in 1Q22 and 2Q22, respectively. Credit risk-weighted assets stood at USD 7.0 billion computing 90.9% of total RWA, while market risk and operating risk stood at USD 39 million and USD 655 million, respectively, as on 2Q22. CET1 capital stood at USD 998.5 million in 2Q22 with Tier 2 Capital total capital stood at USD 1,045 million. The capital levels remain healthy at the current level. The capital will be further boosted as the Group had already received AGM approval to issue USD 300 million in additional Tier 1 capital.

The liquidity coverage ratio (LCR) checks the amount of high-quality liquid assets held by any bank which is enough to meet cash requirements for the next 30 days. The Group computes its LCR as the ratio of the stock of HQLA over the net cash outflows of 30 calendar days. The stock of HQLA stood USD 259 million while net cashflows stood at USD 222 million on 2Q22. Resulting into a strong liquidity base for the Group at 122%, above the minimum requirement of 80% required by the Central Bank of Bahrain (CBB). NET stable funding ratio (NSFR) indicates banks reliance of liquidity risk profile over to long-term funding. The Group's NSFR percentage of available stable funding to required stable funding stood at 101% in 2Q22, in line with CBB requirement of 100%.

Figure 11: Risk Weighted Assets (USD, million)

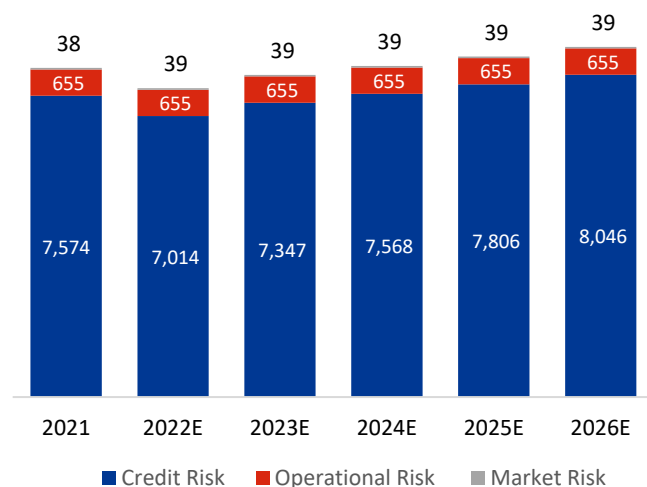
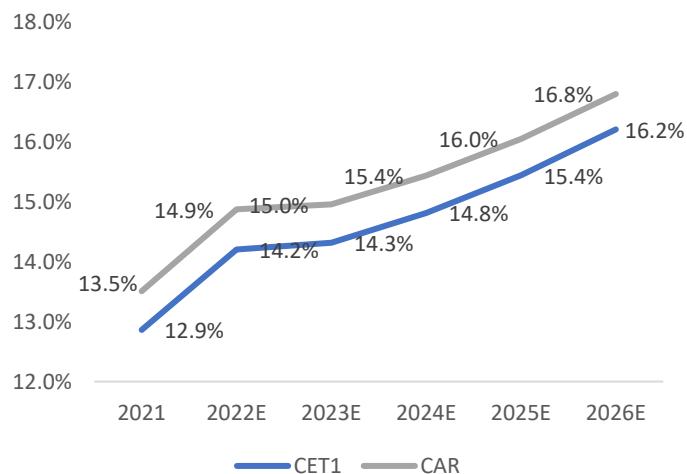


Figure 12: Capital Adequacy ratio (%)



Source: Company information, FAB Securities research 2022-2026

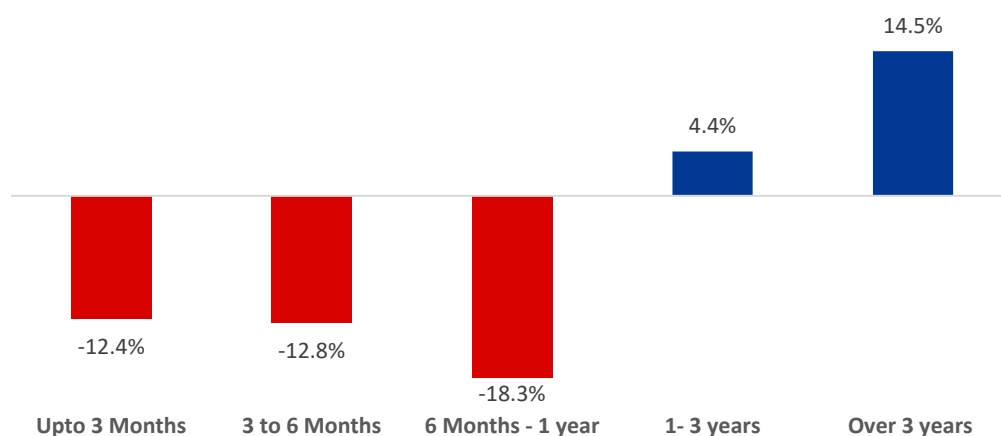
Source: Company information, FAB Securities research 2022-2026

Interest Rate Risk

The Group NIMs would be negatively impacted during rising interest rate scenario due to its negatively geared balance sheet

The Group would be at disadvantage during rising interest rate environment, as its balance sheet is negatively geared. Interest rate gap measure bank's sensitivity to interest rate risk. Negative gap indicates greater amount of liabilities are priced at higher rate as compared to assets. Up to three months sensitivity gap stood at negative USD 1 billion while up to 1-year cumulative gap stood at negative USD 3.5 billion. This would pressurize GFH top line profitability in the current environment.

Figure 13: Interest Sensitivity Gap as % of Total Assets



Source: Company information, FAB Securities research 2022-2026

Treasury portfolio of the Group grew from USD 1.8 Bn in FY2020 to USD 3.1 Bn in FY2021 and further to USD 3.3 Bn in 2Q22

Treasury Portfolio

Treasury Portfolio of the group expanded 68.1% to USD 3.1 billion by the end of FY 2021 and further rose to USD 3.3 billion in 2Q22. The growth in treasury assets in FY2021 is led by a growth in GFH assets through investments in interbank lending, fixed income and alternative investments. As a result, the segment contribution to total income increased by 19% in FY2021. Treasury portfolio assets constitutes 38.9% of total assets at USD 3.3 billion as of 2Q22.

Treasury portfolio includes USD 324.5 million of equity type structured notes and USD 2,874 million of quoted and unquoted sukuk and USD 128.2 million of placements through financial institutions. Short-term and medium-term facilities worth USD 1,690.3 million is secured through by quoted sukuk of USD 2,235 million in 2Q22.

During 1Q22, the Group reclassified the securities which are held within the treasury yielding portfolio. GFH reclassified sukuk portfolio between fair value through equity and amortized cost. This will help in bringing down the volatility in the reported securities portfolio.

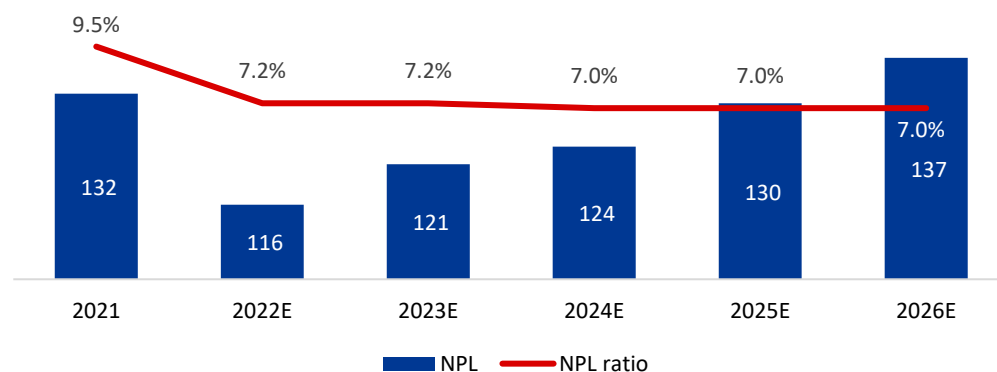
Financing Assets

The Group's gross financing assets stood at USD 1,528 Mn in 2Q22 with NPL ratio of 6.2% and coverage ratio of 74.5%

The Group gross financing asset grew at CAGR of 2.7% from USD 1,274 million in FY2018 to USD 1,382 million in FY2021. On YTD basis in FY2022, the gross financing asset recorded a solid growth of 10.6% to USD 1,528 million in 2Q22. Construction and real estate sector make up more than half of the financing asset in FY2021 and remaining to other sectors. We expect gross financing assets to grow at a CAGR of 7.2% from USD 1,382 million in FY2021 to USD 1,953 million in FY2026. Due to improvement in the economic conditions, the NPL ratio declined from 20.2% in FY2018 to 9.5% in FY2021 and further to 6.2% in 2Q22. Provisioning coverage ratio on the loans also increased from 25.2% in FY2018 to 54.3% in FY2021 and further to 74.5 % in 2Q22. Although, coverage against stage 3 assets stood at 44.5% in 2Q22. It also held collateral worth USD 85 million in FY2021 against the non-performing loans which will make-up for the shortfall in coverage. The group hold collateral worth USD 964 in FY2021 against the financing assets.

However, Stage 2 loan rose from 7.7% in 1Q22 to 9.2% in 2Q22 with a coverage ratio of 4.4% in 2Q22 and collateral against this loan stood at USD 133 million in FY2021.

Figure 14: GFH Financial Group – Gross NPL and NPL ratio (USD, million)



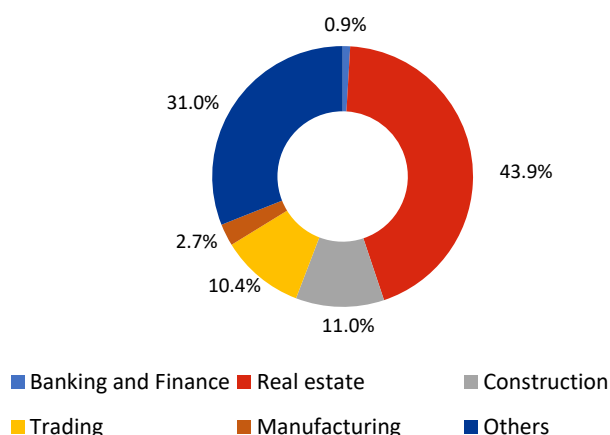
Source: Company information, FAB Securities research 2022-2026

GFH 43.9% and 11.0% of financing assets are exposed to Real Estate and Construction sector in FY2021

Sectorial loan distribution

GFH loan exposure to real estate and construction sector remain the primary reason behind high NPLs over the period of time. Loan exposure to real estate sector rose from 38.5% in FY2018 to 43.9% in FY2021 while it dropped from 51.7% in FY2020. Exposure to construction declined moderately from 12.0% in FY2018 to 11.0% in FY2021. Apart from this, the Group exposure to others stood at 31.0%, trading at 10.4%, manufacturing at 2.7% and banking & finance 0.9% in FY2021.

Figure 15: GFH Financial Group - Loan Distribution by Sector as of FY2021



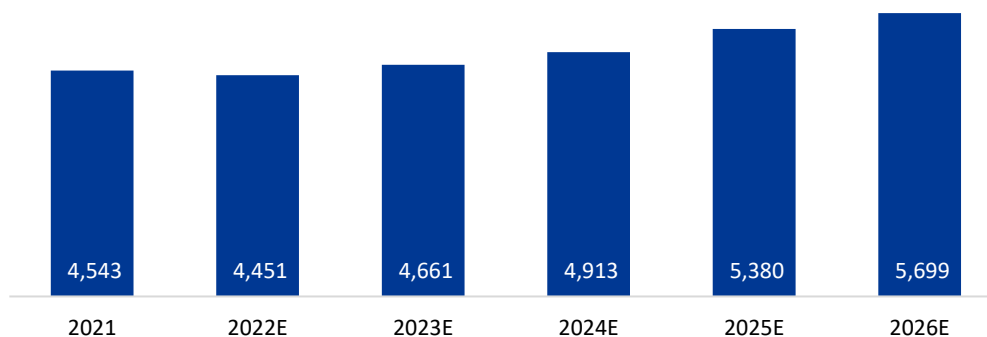
Source: Company information, FAB Securities research 2022-2026

Deposits

The Group customer deposits grew at a CAGR of 18.7% from USD 2.7 billion in FY2018 to USD 4.5 billion in FY2021

The Group deposits includes placements from financial and non-financial institution, customer current accounts and equity of investment account holders. Deposits expanded a CAGR of 18.7% from USD 2.7 billion in FY2018 to USD 4.5 billion in FY2021. It further rose 7.5% on a YTD basis to 4.9 billion in 2Q22. The Group managed to raise USD 1.9 billion in deposit in FY2021. We anticipate deposits to grow at CAGR of 4.6% to USD 4.5 billion in FY2021 to USD 5.7 billion in FY2026.

Figure 16: GFH Financial Group - Deposits and loan to deposit ratio (USD Mn)



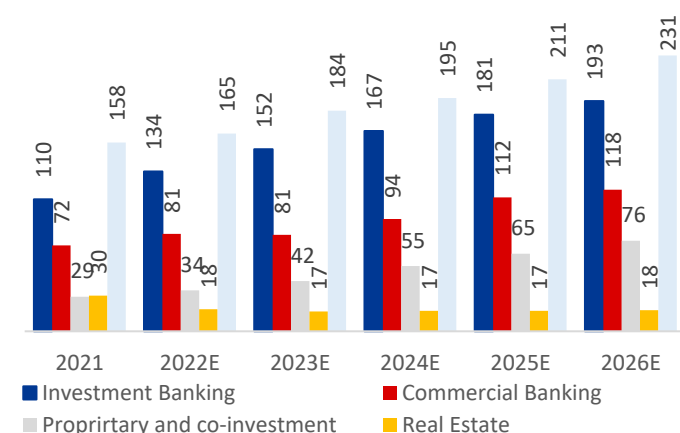
Source: Company information, FAB Securities research 2022-2026

Revenue

We expect consolidated total operating income to grow from USD 399 million in FY2021 to USD 635 million in FY2026

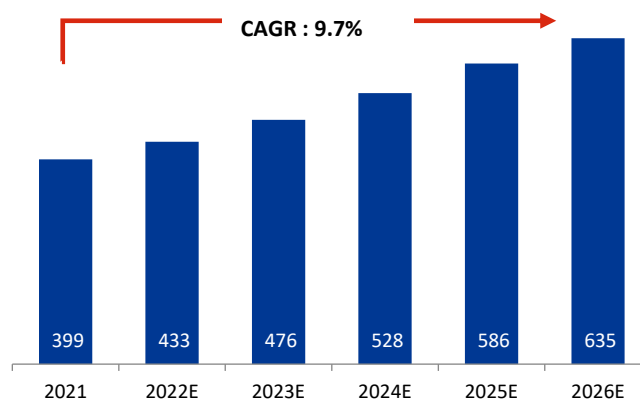
GFH total operating income grew at CAGR 11.6% during FY2018- 2021, mainly due to strong growth in Investment Banking, Commercial Banking and Treasury segment. While in 1H22, total operating income almost remained flat mainly due to growth in Investment and Proprietary & Co-Investment segment largely offset by a decline in other segments. GFH earns revenue from Investment Banking, Proprietary and Co-investment, Commercial Banking, Treasury and Real Estate segment. Investment banking (IB) segment show solid performance in FY 2021, contributing towards 27.7% of total operating income. Investment banking segment successfully placed three private equity deal and six real estate investment deals. This newly placed deal generated deals related income of USD 102 million, registering a growth of 35.1% YOY in deal related income and 36.9% YOY growth in overall income from Investment banking segment in FY 2021. While it placed four deals in 1H22 resulting in gross revenue from IB segment of USD 45 million. Total AUM stood at USD 16.4 billion in 2Q22. Treasury portfolio recorded a strong growth of 68.1% to USD 3.1 billion in FY 2021. The growth was mainly driven by growth in investments such as interbank lending, fixed income and alternative investments. As a result, total revenue from Treasury Segment expanded 22.6% YOY to USD 158 million, contributing 39.6% to total operating income. While, gross treasury income fell from USD 76.1 million in 1H21 to USD 62.0 million in 1H22. Treasury income was mainly impacted due to mark-to-market of holdings in 1H22. GFH (Asset Management) launched USD 100 million sukuk fund with Credit Suisse, aiming to leverage the GCC's post pandemic economic recovery and anticipate acceleration of the global sukuk issuance leading the fund to generate substantial returns from fund through active assets allocation, credit selection and optimal leverage. Commercial banking segment activities of the Group are represented through its subsidiary, Khaleeji Commercial Bank (KHCB), reported notable growth in revenue of 10.1% at USD 72 million, contributing to 18.0% of total operating income in FY 2021, while it fell from USD 41.7 million in 1H21 to USD 36.9 million in 1H22 due to decline in treasury income. KHCB's total assets stood strong at USD 3.3 billion in 2Q22. The Group carried restructuring program in 1Q22, where a significant portion of infrastructure and real estate were transferred to Infracorp. Income from real estate is included in Treasury and Proprietary Segment starting from 2Q22 as income from this segment rose from USD 28.4 million in 1H21 and USD 38.8 million in 1H22. We anticipate total operating income to grow at a CAGR of 9.7% from USD 399 million in FY2021 to USD 635 million in FY2026 attributable to double digit growth across segments.

Figure 17: Segmented Revenue Forecast (USD, million)



Source: Company information, FAB Securities research 2022-2026

Figure 18: Total Revenue (USD, million)



Source: Company information, FAB Securities research 2022-2026

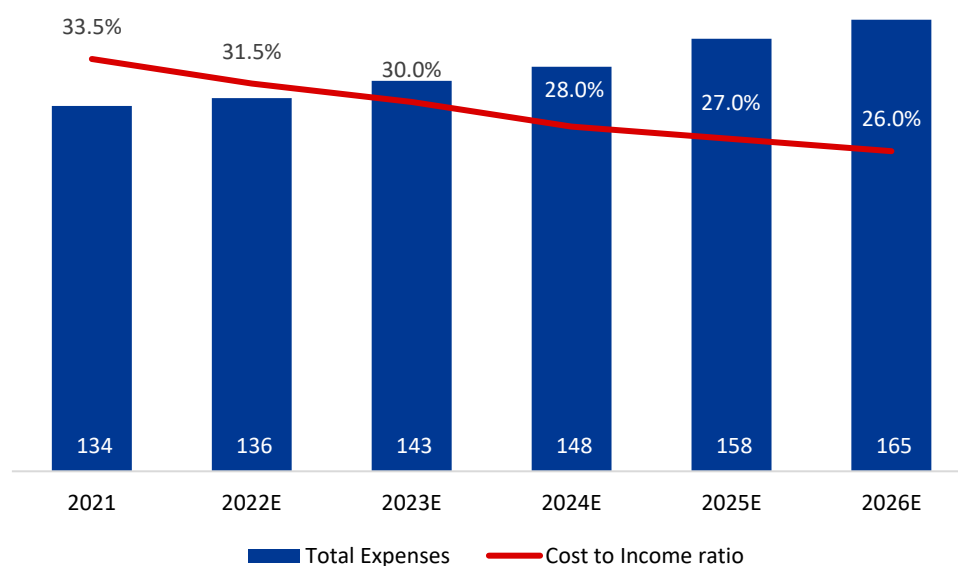
GFH's cost to income ratio rose from 22.5% in FY2018 to 33.5% in FY2021, however it is expected to decline to 26.0% in FY2026

Operating Expenses and Impairments

GFH operating expenses rose faster than the growth in total operating income. Operating expenses rose at a CAGR of 4.3% from USD 117.5 million in FY2018 to USD 134 million in FY2021. While going forward, we anticipate this trend to reverse and expect total operating income is expected to grow at a faster rate as compared to operating expenses which will also lead to decline in cost-to-income ratio. Furthermore, the Group continued to upgrade and strengthen its digital technologies to ensure smooth and secure customer friendly dealings with aim to capitalize on the endless opportunities as well as gaining efficiency.

The cost of risk averaged 2.7% between FY2018 – 2021. We expect this decline to average 2.0% in FY2022-26 mainly due to improvement in economic conditions and step taken by the management. Impairment expenses grew at a CAGR of 26.3% from USD 18 million in FY2018 to USD 36 million in FY2021. It is expected to remain subdued in the forecasted period.

Figure 19: GFH Financial Group – Total Expenses and Cost to Income ratio (USD, million)



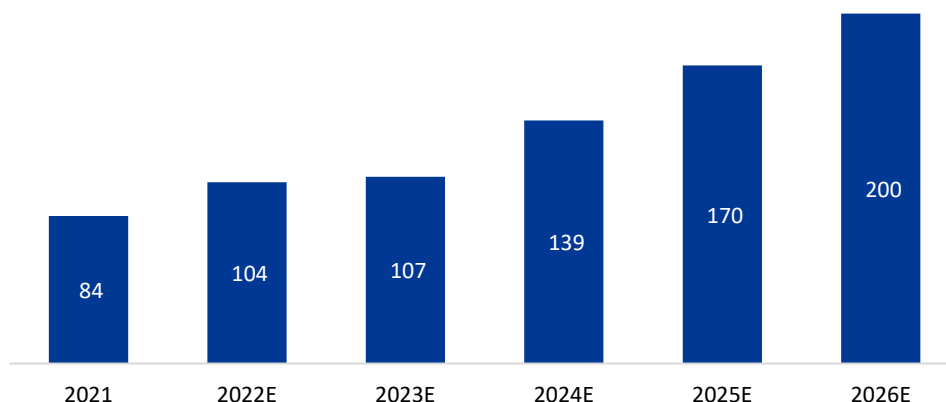
Source: Company information, FAB Securities research 2022-2026

Net Profit

Net profit is expected to grow at CAGR of 18.9% during FY 2021-2026 almost double the growth in top line

The Group's net profit is expected to grow at a CAGR of 18.9% from USD 84 million in FY2021 to USD 200 million in FY2026 almost the double growth in top line. This is mainly due to increase in revenue from IB segment and Treasury segment.

Figure 20: GFH Financial Group- Net Profit (USD, million)



Source: Company information, FAB Securities research 2022-2026

Dividend and Share buy back

GFH paid USD 60 Mn in dividend during FY2021. Out of which, USD 45 Mn is paid as cash dividend and remaining USD 15 Mn as stock dividend

GFH maintains a progressive dividend policy. It paid a total USD 60 million as dividend in FY2021 in the form of cash and stock dividend. During the last four year from FY2018-21, it paid a total cash dividend of USD 132 million with an average payout ratio of 42.8%. We expect the Group to maintain a dividend payout ratio of 50.0% in the forecasted period.

During July 2022, the Group repurchased 1.2 million shares from open market increasing its total treasury shareholding from 382.0 million to 383.3 million in July 2022, representing 10.00% of total issued share as of 27 July 2022.

Financial Statements

Income Statement

Year to Dec (USD, million)	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Interest Income	80	79	120	170	192	214	232
Interest Expenses	198	204	269	337	366	393	418
Net interest Income	-117	-125	-149	-167	-174	-179	-186
Fee Income	5	5	10	10	10	10	10
Net Investment income	162	191	218	225	250	275	298
Other operating income	139	191	189	209	231	253	276
Total operation income	188	262	268	278	317	360	398
Total operating expenses	112	134	136	143	148	158	165
Pre-provision operating profit	76	128	132	135	169	202	233
Net provisions	27	36	31	31	33	34	36
Operating profit	49	93	101	104	136	167	197
Associates	0	0	0	0	0	0	0
Pre-tax profits	49	93	101	104	136	167	197
Taxation	0	0	0	0	0	0	0
Net profit	49	93	101	104	136	167	197
Minorities	4	8	-3	-3	-3	-3	-3
Attributable Net profit	45	84	104	107	139	170	200
EPS (US cents)	1.33	2.5	3.0	3.0	4.0	5.0	6.0

Source: Company Information, FAB Securities research

Key Ratios:

	2020A	2021A	2022E	2023E	2024E	2025E	2026E
YoY % Change							
Revenue	-10.4%	38.9%	2.5%	3.6%	14.0%	13.7%	10.6%
Net profit	-31.7%	86.8%	22.9%	3.1%	30.1%	22.6%	17.4%
Assets Quality Ratio							
NPL Ratio	11.2%	9.5%	7.2%	7.2%	7.0%	7.0%	7.0%
Coverage ratio	37.7%	54.3%	69.0%	70.0%	71.0%	72.0%	73.0%
Liquidity ratio							
Loan to Deposit ratio	34.1%	28.9%	34.3%	34.4%	34.3%	32.8%	32.5%
Capital and Leverage ratios							
Credit risk assets	7,647	7,574	7,014	7,347	7,568	7,806	8,046
Market Risk Assets	72	38	39	39	39	39	39
Operational Risk Assets	553	655	655	655	655	655	655

CET1 ratio	12.57%	12.94%	14.23%	14.34%	14.84%	15.47%	16.23%
Capital Adequacy Ratio	13.49%	13.51%	14.90%	14.98%	15.46%	16.07%	16.82%
Return ratios							
ROE	4.7%	9.0%	10.2%	9.7%	12.0%	13.8%	15.0%
ROA	0.7%	1.1%	1.2%	1.1%	1.4%	1.6%	1.8%

Source: Company Information, FAB Securities research

Balance Sheet

Year to Dec (USD, million)	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Assets							
Non-Current Assets							
Cash and Bank Balances	537	722	1,127	1,305	1,568	1,751	1,967
Treasury Portfolio	1,839	3,090	3,355	3,489	3,628	3,773	3,924
Financing Assets	1,267	1,311	1,527	1,602	1,683	1,766	1,853
Real Estate Investments	1,812	1,906	1,074	1,074	1,074	1,074	1,074
Proprietary Investments	256	212	1,165	1,165	1,165	1,165	1,165
Co-Investments	126	172	128	263	270	288	298
Receivables and Pre-payments	606	531	633	619	686	703	730
Property and Equipment	144	140	69	67	67	68	68
Total Assets	6,587	8,084	9,078	9,584	10,143	10,589	11,081
Equities and liabilities							
Equity							
Share capital	976	1,001	1,001	1,001	1,001	1,001	1,001
Treasury shares	-64	-48	-63	-63	-63	-63	-63
Statutory reserve	20	28	28	28	28	28	28
Investment fair value reserve	6	-29	-32	-32	-32	-32	-32
Foreign currency translation reserve	-47	-70	0	0	0	0	0
Retained Earnings	22	82	135	190	261	347	448
Share grant reserve	1	0	0	0	0	0	0
Equity attributable to owners of the Company	913	963	1,069	1,124	1,195	1,281	1,382
Non-controlling interest	273	205	57	54	51	48	46
Total equity	1,186	1,168	1,126	1,178	1,246	1,330	1,428
Equity of Investment account holders	1,157	1,358	1,486	1,575	1,701	1,837	1,984
Liabilities							
Non-current liabilities							
Clients' Funds	131	217	218	240	264	290	319
Placements from fin, non-fin institutions and individuals	2,418	3,052	2,819	2,934	3,054	3,382	3,551
Customer current accounts	141	133	146	152	158	161	165
Term financing	1,089	1,751	1,932	1,932	1,932	1,932	1,932
Other liabilities	465	405	1,351	1,573	1,789	1,657	1,702
Total Liabilities	4,244	5,557	6,466	6,831	7,197	7,423	7,669
Total Equity and liabilities	6,587	8,084	9,078	9,584	10,143	10,589	11,081

Source: Company Information, FAB Securities research

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