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## IIRA Reaffirms Fiduciary Ratings of GFH Financial Group BSC

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**Manama, December 27, 2018**– Islamic International Rating Agency (IIRA) has reaffirmed the international scale ratings of GFH Financial Group B.S.C. (“GFH” or “the bank”) at ‘BB/B’ (Double B / Single B) and national scale ratings at ‘BBB-(bh)/ A3(bh)’ (Triple B Minus / A Three). Outlook on the assigned ratings is ‘Stable’.

GFH is a financial group operating in the Kingdom of Bahrain (“Bahrain”), and engages in commercial banking, investment banking, real estate development as well as owning direct investment portfolio. The bank has posted improvement in core income on the back of strong investment banking transaction volumes during 2017, which continued during the nine months ended September 2018. The ratings also take cognizance of the bank’s low on-balance sheet leverage and benefits of association with anchor shareholder. GFH’s capitalization indicators have declined; however, remain comfortably above the minimum regulatory requirements. The bank needs to continue to develop more steady revenue streams going forward.

In 2017 the bank effected the strategic acquisition transaction of US\$1.2bn of infrastructure development projects through a commensurate share issuance. As such, the bank’s overall investment portfolio continues to represent low-yielding and illiquid assets that are at various stages of development. Nonetheless, successful completion and exit from these projects carries significant upside potential. Most notable exits of GFH since 2017 have related to education and leisure sector investments. Over the most recent quarters, the bank has also expanded its own treasury activities as evidenced in a growing Sukuk investments portfolio.

GFH’s investment portfolio has accelerated during last two years with fund raising exceeding US\$1bn through its asset under management, real estate and treasury. It has recorded about US\$1.5bn exits of investors since 2016, which have fueled the bank’s investment operations and profitability. The bank is expected to continue on this strategy.

GFH conducts commercial banking operations through its 55.4% stake held in a locally incorporated retail banking subsidiary. The performance of the subsidiary in recent periods is reflective of overall tough economic conditions locally. As such, the international scale ratings reflect the overall challenging macroeconomic environment facing Bahrain and most of GFH’s key business and project markets.

Shareholding of the bank is fragmented with UAE-based Abu Dhabi Financial Group (“ADFG” or “the group”) – a private investment company having emerged as the single largest stakeholder

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in the bank and along with its associates, being classified as a controlling shareholder. Shared business interests are also evident.

IIRA's assessment on the bank's overall fiduciary score falls in the range of '61-65', reflecting adequate protection of the rights of various stakeholders. The governance infrastructure benefits from strong regulatory guidance in Bahrain. The bank has complied with the regulatory corporate governance requirements.

For further information on this rating announcement, please contact IIRA at [iira@iirating.com](mailto:iira@iirating.com).

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