

# The Business

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## GFH posts \$49.1m net profit

**MANAMA:** GFH Financial Group has reported a 21.9 per cent increase in revenues at \$163.5 million for the first six months of 2019 when compared with \$134.1m in the first half of 2018.

For the second quarter of 2019, revenues rose 34.4pc to \$92.9m versus \$69.1m in the second quarter of 2018.

Excluding the one-off recovery income and restructuring income in the first half of 2018, total income of the group for first half of 2019 grew by 114.3pc compared with the comparative period.

Net profit for the first half of 2019 was \$49.1m compared with \$72.5m in the prior-year period, a decrease of 32.3pc.

However, excluding the one-off recovery income and restructuring income in the first half of 2018, net profit attributable shareholders grew by 234pc in first half of 2019 compared with first half of 2018.

The group reported consolidated net profit of \$48.4m, compared with \$73.4m, a decrease of 34.1pc.

For the first half of the year, the decrease in net profits is attributed to lower contribution from the group's commercial banking arm due to higher impairment provisions at the commercial bank during second quarter of 2019.

Net profit for the second quarter of 2019 was \$27.8m versus \$36m in the second quarter of 2018, a decrease of 22.8pc.

Consolidated net profit for the second quarter was \$27.7m compared with \$36.5m in the second quarter of 2018, a decrease of 24.1pc.

Profit from continuing operations for the first half of 2019 was \$48.9m compared with \$70.5m in the prior year comparative period, a decrease of 30.6pc, and for the second quarter of 2019 was \$27.7m compared with \$34.7m in the second quarter of 2018, a decrease of 20.2pc.

Contributing to strong income growth for the first half of 2019 was the enhanced performance across the group's core investment banking and real estate business lines in addition to income from treasury and proprietary investments. During the first half of 2019, investment banking contributed 26.6pc to the total income of the group mainly from placement activities.

The group's strategy for its treasury business line has shown significant improvement with treasury contributing to 15.8pc of the total income while solid performance from proprietary investments generated 24.5pc of the total



■ Mr Alseddqi



■ Mr Alrayes

income and real estate 9.1pc for the first half of 2019. Commercial banking contributions were low due to provisions.

Total expenses including provision for impairment for the six-month period of 2019 were at \$114.7m compared with \$63.7m in the comparative previous period, an increase of 80pc, primarily due to an increase in the impairment provisions in the commercial banking business of 99pc and an increase in the treasury portfolio of the group.

Total expenses including provisions for impairment for the second quarter of 2019 were \$65.2m compared with \$34.4m in the comparative prior year period, an increase of 89.5pc. Financing costs saw a gradual reduction over the period to \$3m in the first half of 2019

from \$3.8m during the first half of 2018. An increase in the money market as part of the group's growing treasury portfolio and increased revenue generation from that business line also led to an increase in related costs to \$11.7m during first half of 2018 to \$50.7m during first half of 2019.

Operating expenses for the period were \$48.8m compared with \$42.5m in the first half of 2018, an increase of 14.8pc. For the second quarter, operating expenses were \$26.9m versus \$21.8m in the prior-year period, an increase of 23.4pc.

Total assets of the group grew to \$6.1 billion as at 30 June 2019 from \$5.9bn as at 31 March 2019, an increase of 3.9pc, while the group's liabilities increased to \$3.8bn as at 30 June 2019 from \$3.6bn at 31 March 2019, an increase of 5.9pc. This increase was primarily due to increase in the money market and growing treasury portfolio.

Total equity attributable to shareholders at 30 June 2019 was \$1bn, a decrease of 1.1pc from \$1.1bn at the end of the first quarter. Earnings per share for the first half of 2019 was US cents 1.45 compared with US cents 2.02 in the comparative prior-year period. Earnings per share for the second quarter of 2019 was US cents 0.84 compared with US cents 1.00

in the comparative prior-year period.

GFH chairman Jassim Alseddqi said, "Strong and consistent growth across the bank's core business lines continues to deliver solid results and steady improvements in income generation. This was evidenced by a significant increase of 21.9pc in revenues for the first half of the year and reflects GFH's ongoing success and the positive impact of efforts to diversify the business and derive value from new and existing assets. The group's newly expanded treasury business is a strong example of this diversification at work. Having performed extremely well, this is an area we will continue to grow and benefit from as we go forward."

Group chief executive Hisham Alrayes said, "For the period, GFH was able to raise in excess of \$250m towards its investment banking products which highlights the growing confidence in the group. We offered education and US portfolios in addition to starting healthcare investments as a new line of investment. The positive growth and contributions from our profitable investments and exits achieved during the first half of the year and, second quarter in particular are in line with the internal strategies and we look forward to building on our results in the forthcoming periods of 2019."

### Interim Consolidated Statement of Financial Position

As at 30 June 2019 (Reviewed)

	Reviewed 30 June 2019 US\$ 000	Audited 31 December 2018 US\$ 000	Reviewed 30 June 2018 US\$ 000
<b>ASSETS</b>			
Demand and call deposits with banks	107,292	142,510	44,251
Recurrents with banks	243,529	198,509	94,400
Investments carried at fair value through statement of income	80,760	81,552	37,057
Investments carried at fair value through other comprehensive income	136,914	167,647	158,393
Investments carried at amortised cost	283	494	-
Loans and receivables	25,349	25,191	3,949
Other assets	61,086	61,087	27,877
Investments in associates	75,078	71,513	77,533
Investment properties	97,873	107,529	106,491
Property and equipment	51,709	39,394	2,497
Goodwill and other intangible assets	66,063	66,654	52,390
<b>TOTAL ASSETS</b>	<b>945,936</b>	<b>873,490</b>	<b>605,156</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and other financial institutions	257,882	220,879	209,240
Deposits from customers	52,427	32,808	28,541
Loans payable	79,856	67,033	76,365
Long term bonds	131,844	131,739	-
Other liabilities	82,721	106,375	38,286
<b>TOTAL LIABILITIES</b>	<b>614,730</b>	<b>558,634</b>	<b>352,134</b>
<b>EQUITY</b>			
Share capital	116,132	101,132	101,132
Share premium	5,687	5,687	5,687
Statutory reserve	50,890	50,890	49,881
General reserve	30,621	30,621	29,612
Fair value reserve	17,872	(10,121)	1,248
Foreign currency translation reserve	(4,814)	(4,534)	(3,648)
Retained earnings	7,594	13,318	11,714
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>	<b>198,238</b>	<b>186,993</b>	<b>195,628</b>
Perpetual Tier 1 capital	33,000	33,000	33,000
Non-controlling interests	99,968	94,993	24,396
<b>TOTAL EQUITY</b>	<b>331,206</b>	<b>314,859</b>	<b>253,224</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>945,936</b>	<b>873,490</b>	<b>605,156</b>

### Interim Consolidated Statement of Income

For the six-month period ended 30 June 2019 (Reviewed)

	Three-month period ended 30 June 2019 US\$ 000	Three-month period ended 30 June 2018 US\$ 000	Six-month period ended 30 June 2019 US\$ 000	Six-month period ended 30 June 2018 US\$ 000
<b>Continuing operations</b>				
Investment income - net	7,747	808	17,250	5,318
Interest income	2,788	1,039	5,163	2,132
Fees and commissions - net	13,501	10,346	30,823	18,283
Foreign currency translation (losses) gains - net	(377)	(984)	96	443
Share of results of associates - net	(477)	1,104	3,941	1,290
<b>Total income</b>	<b>25,135</b>	<b>12,313</b>	<b>57,273</b>	<b>27,466</b>
Interest expense	(5,979)	(2,440)	(11,007)	(5,829)
<b>Operating income before expenses and provisions</b>	<b>19,156</b>	<b>9,873</b>	<b>46,266</b>	<b>21,774</b>
Salaries and benefits	(11,053)	(4,868)	(22,868)	(10,044)
General and administrative expenses	(8,260)	(3,290)	(15,159)	(7,131)
<b>Operating income before provisions and tax</b>	<b>1,843</b>	<b>1,715</b>	<b>8,119</b>	<b>4,599</b>
Reversal of expected credit losses - net	759	-	124	-
Provision for losses against unfunded participation	-	-	-	(731)
Taxation - net	(7)	(160)	(877)	619
<b>Net profit for the period from continuing operations</b>	<b>2,595</b>	<b>1,555</b>	<b>7,366</b>	<b>4,487</b>
Net income from discontinued operations	-	-	450	-
<b>NET PROFIT FOR THE PERIOD</b>	<b>2,595</b>	<b>1,555</b>	<b>7,366</b>	<b>4,487</b>
<b>Net profit for the period attributable to:</b>				
- shareholders of the parent	1,506	1,882	4,257	4,710
- non-controlling interests	1,089	123	3,109	227
<b>TOTAL</b>	<b>2,595</b>	<b>1,555</b>	<b>7,366</b>	<b>4,487</b>

### Interim Consolidated Statement of Comprehensive Income

For the six-month period ended 30 June 2019 (Reviewed)

	Three-month period ended 30 June 2019 US\$ 000	Three-month period ended 30 June 2018 US\$ 000	Six-month period ended 30 June 2019 US\$ 000	Six-month period ended 30 June 2018 US\$ 000
<b>NET PROFIT FOR THE PERIOD</b>	<b>2,595</b>	<b>1,555</b>	<b>7,366</b>	<b>4,487</b>
<b>Other comprehensive (loss) income</b>				
Items that may be reclassified to profit or loss in subsequent periods				
Foreign currency translation reserve	(166)	(2,451)	(294)	(1,248)
Cash flow hedges	(498)	27	(835)	530
	(664)	(2,424)	(1,129)	(416)
Items that will not be reclassified to profit or loss in subsequent periods				
Fair value reserve	(5,696)	(1,895)	(6,302)	(9,836)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(3,769)</b>	<b>(2,342)</b>	<b>(85)</b>	<b>(5,315)</b>
<b>Total comprehensive (loss) income attributable to:</b>				
- shareholders of the parent	(3,925)	(2,163)	(2,005)	(4,531)
- non-controlling interests	160	(161)	1,938	(784)
	(3,769)	(2,342)	(85)	(5,315)

### Interim Condensed Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2019 (Reviewed)

	2019 US\$ 000	2018 US\$ 000
<b>Net cash flows from operating activities</b>	<b>57,032</b>	<b>1,143</b>
<b>Net cash flows used in investing activities</b>	<b>(4)</b>	<b>(51)</b>
<b>Net cash flows from (used in) financing activities</b>	<b>17,831</b>	<b>(24,349)</b>
Foreign currency translation adjustments	(179)	295
Movement in non-controlling interests	1,994	(2,733)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>76,877</b>	<b>(25,792)</b>
Cash and cash equivalents at 1 January	237,428	166,252
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>314,305</b>	<b>140,460</b>

### Interim Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2019 (Reviewed)

	Share capital US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings US\$ 000	Total before non-controlling interests US\$ 000	Perpetual Tier 1 capital US\$ 000	Non-controlling interests US\$ 000	Total equity US\$ 000
Balance at 1 January 2019	101,132	5,687	50,890	30,621	(10,121)	(4,534)	13,318	186,993	33,000	94,993	314,986
Profit for the period	-	-	-	-	(5,983)	(290)	4,257	(2,005)	-	1,938	(7,331)
Other comprehensive loss	-	-	-	-	(5,983)	(290)	4,257	(2,005)	-	1,938	(7,331)
Total comprehensive (loss) income for the period	-	-	-	-	(5,983)	(290)	4,257	(2,005)	-	1,938	(7,331)
Issue of share capital	15,000	-	-	-	-	-	-	15,000	-	-	15,000
Transfer upon disposal of non-trading investments	-	-	-	-	(8,229)	-	(1,752)	(9,981)	-	-	(9,981)
Interest payment on Tier 1 capital	-	-	-	-	-	-	-	-	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2019	116,132	5,687	50,890	30,621	(7,752)	(4,814)	7,594	198,238	33,000	99,968	331,206
Balance at 1 January 2018	101,132	5,687	49,881	29,612	12,887	(3,871)	1,555	202,967	33,000	26,902	262,869
Transfer upon disposal of non-trading investments	-	-	-	-	(1,058)	-	(1,058)	-	-	-	(1,058)
Interest payment on Tier 1 capital	-	-	-	-	-	-	-	-	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2018	101,132	5,687	49,881	29,612	11,829	(3,871)	4,497	201,911	33,000	27,902	262,813
Transfer upon disposal of non-trading investments	-	-	-	-	(5,190)	-	(5,190)	-	-	-	(5,190)
Interest payment on Tier 1 capital	-	-	-	-	-	-	-	-	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2019	101,132	5,687	49,881	29,612	1,248	(3,648)	11,714	195,628	33,000	24,396	253,224

The above Interim Consolidated Statement of Financial Position, Interim Consolidated Statement of Income, Interim Consolidated Statement of Comprehensive Income, Interim Condensed Consolidated Statement of Cash Flows and Interim Consolidated Statement of Changes in Equity have been extracted from the Interim Condensed Consolidated Financial Statements of United Gulf Bank B.S.C.(c) for the six months period ended 30 June 2019, which were approved by the Board of Directors on 8 August 2019 and was reviewed by Ernst & Young, Kingdom of Bahrain.

Masaud Hayat  
Chairman

Faisal Al Ayar  
Vice Chairman

Hussain Lalani  
Chief Executive Officer



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