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Mr. Hassan Al Serkal
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Dear Mr. Al Serkal,

Subject: Fitch Assigns 'B-' Rating to Gulf Finance House, with Stable Outlook

Gulf Finance House (GFH) would like to notify its shareholders and the markets that globally recognized rating agency *Fitch Ratings* has assigned a Long-term Issuer Default Rating (IDR) of 'B-' with a Stable Outlook and Short term IDR of 'B'.

Fitch Ratings in its announcement stated the following:

KEY RATING DRIVERS – IDRs

GFH's IDRs take into account GFH's successful refinancing of debt, and its success in raising capital. Fitch considers that GFH's liquidity, leverage and funding profile have stabilised and should provide some flexibility to work out legacy asset exposures. However, in Fitch's view, profitability remains weak and volatile and is unlikely to improve materially and sustainably until significant balance sheet and business model reshaping has taken place. GFH's capacity for continued operation is vulnerable to deterioration in the business and economic environment.

The ratings reflect the fact that its balance sheet consists mainly of illiquid investments, which do not generate much income, and its high single name and sector concentration. About 60% of assets consist of real estate properties, securities (equity stakes) in real estate related projects or legacy loans related to real estate. Geographically the focus is on the GCC with about 74% of exposure in GCC countries and 8% in other MENA countries. Around half of the balance sheet is pledged against existing debt.

GFH is an Islamic investment bank, established in Bahrain in 1999 to focus on investments in the GCC and MENA region. GFH built a solid niche market, focusing specifically on real estate, infrastructure projects - mainly large-scale green-field projects - and equities. The financial crisis starting in 2008 hit GFH's business model hard, with collapsing real estate prices, and real estate development projects across the region put on hold or cancelled. Since 2012, GFH has focused on restructuring the bank, and setting out a new strategy, and this included a complete change of the bank's board of directors and senior management changes.
One important focus of the new strategy is to strengthen the GFH brand, which was affected during the financial crisis, to rebuild the confidence of its clients, investors and financing banks, and to focus on more liquid and

income-generating assets. Organisationally, GFH intends to have four or five separate business divisions, each with its own CEO and each contributing to overall GFH group profitability. The divisions would encompass real estate investments (but income producing and more liquid investments, not green-field projects), industrial investments such as cement, which would generate synergies with the real estate business, asset management, and commercial banking via GFH's subsidiary Khaleeji Commercial Bank, a Bahrain-based Islamic bank focused on real estate, specifically mortgage lending.

GFH also intends to use its current stock of illiquid real estate assets to set up a real estate development arm. GFH is working on reviving the real estate projects; forming joint ventures with contractors it feels can complete the projects, with GFH providing the land and the contractor carrying out and financing completion of the project. Following completion, the investment would either be sold (profitably) or kept as an income producing asset, with GFH and the contractor sharing the income generated.

RATING SENSITIVITIES – IDRs

Any upside to the ratings would require as a minimum some track record of successful implementation of GFH's new strategy; evidence of solid profitability and a viable business model. Implementation of the bank's strategy depends on a continuation of the pick-up in both real estate and equity markets in the region.

Definition for 'B' Rating:

'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Note: The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-Term IDR category, or to Long-Term IDR categories below 'B'.

Management opinion on the assigned Credit Rating:

The Management believes that the rating assigned by an international rating agency like Fitch is an endorsement of the actions taken by the Bank and its shareholders to enhance the Bank's financial position and the new strategy going forward. The rating will strengthen and reinforce the market confidence in the Bank and allow for better business opportunities in the future.

Yours Sincerely,

Nabeel Mirza
Compliance Director & MLRO