Al Safwa Islamic Financial Services (PJSC) and its subsidiary

Condensed consolidated interim financial information

30 September 2015

Al Safwa Islamic Financial Services (PJSC) and its subsidiary

Condensed consolidated interim financial information (Reviewed)

For the nine-month period ended 30 September 2015

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

The shareholders
Al Safwa Islamic Financial Services (PJSC)

Introduction

We have reviewed the accompanying 30 September 2015 condensed consolidated interim financial information of Al Safwa Islamic Financial Services (PJSC) ("the Company") and its subsidiary ("the Group"), consisting of:

- the condensed consolidated interim statement of financial position as at 30 September 2015;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and nine month periods ended 30 September 2015;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2015;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2015; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2015 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other matter

The comparative information in the condensed consolidated interim statements of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the nine month period ended 30 September 2014 are not reviewed and we do not express any conclusion on these statements.

KPMG

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No: 793
Date 2 6 OCT 2015

Al Safwa Islamic Financial Services (PJSC) and its subsidiary
Condensed consolidated interim statement of financial position
As at 30 September 2015

	Note	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
Assets			
Non-current assets			
Property and equipment		3,643,384	4,202,393
Investment properties	3	9,934,442	14,646,964
Total non-current assets		13,577,826	18,849,357
Current assets			
Available-for-sale investment	5	4,648,709	4,648,709
Trade receivables, deposits, prepayments and other receivables	6	51,304,507	34,425,091
Amount due from related parties	7	9,284,548	12,582,453
Cash and bank balances	8	34,343,961	53,313,474
Total current assets		99,581,725	104,969,727
Total Assets		113,159,551	123,819,084
Equity			
Share capital		129,841,748	129,841,748
Statutory reserve		3,631,718	3,631,718
Treasury shares		(2,000,000)	(2,000,000)
Accumulated losses		(46,531,973)	(37,438,742)
Total Equity		84,941,493	94,034,724
Liabilities			
Non-current liabilities			
Employees' end of service benefits	9	472,055	416,055
Current liabilities			
Trade and other payables	10	27,275,733	28,708,032
Amount due to related parties	7	470,270	660,273
Total current liabilities		27,746,003	29,368,305
Total Liabilities		28,218,058	29,784,360
Total Equity and Liabilities		113,159,551	123,819,084

The notes on pages 7 to 14 are an integral part of the condensed consolidated interim financial information.

The condensed consolidated interim financial information were approved and authorised for issue by the Board of Directors on 26 OCT 2015 and signed on its behalf by:

Chairman

The review report of the auditors' is set out on page 1.

Al Safwa Islamic Financial Services (PJSC) and its subsidiary

Condensed consolidated interim statement of profit or loss and other comprehensive income

For the nine month period ended 30 September 2015

	Note	**Three-month period ended 30 September 2015**	Three-month period ended 30 September 2014	**Nine-month period ended 30 September 2015**	Nine-month period ended 30 September 2014
		AED	AED	**AED**	AED
		(Reviewed)	(Unaudited)	**(Reviewed)**	(Unaudited)
Commission income		**1,076,784**	2,562,855	**4,097,242**	11,374,912
Other income		**79,243**	83,346	**417,729**	518,353
Total income		**1,156,027**	2,646,201	**4,514,971**	11,893,265
Staff salaries and benefits	*11*	**(1,210,267)**	(1,056,014)	**(3,317,509)**	(3,073,565)
Advertisement and business promotion		**-**	-	**(4,556)**	(6,796)
Administrative and general expenses	*12*	**(974,907)**	(715,655)	**(3,043,400)**	(2,939,414)
Net (loss)/profit for the period from brokerage		**(1,029,147)**	874,532	**(1,850,494)**	5,873,490
Investment (loss)/gain	*4*	**(116,052)**	755,720	**(650,650)**	1,608,396
Net (loss)/profit for the period		**(1,145,199)**	1,630,252	**(2,501,144)**	7,481,886
Other comprehensive income for the period		**-**	-	**-**	-
Total comprehensive (loss)/income for the period		**(1,145,199)**	1,630,252	**(2,501,144)**	7,481,886

The notes on pages 7 to 14 are an integral part of the condensed consolidated interim financial information.

The review report of the auditors' is set out on page 1.

Al Safwa Islamic Financial Services (PJSC) and its subsidiary

Condensed consolidated interim statement of changes in equity

For the nine-month period ended 30 September 2015

	Share capital AED	Statutory reserve AED	Treasury shares AED	Accumulated losses AED	Total AED
Balance at 1 January 2014	129,841,748	2,776,490	(2,000,000)	(38,203,708)	92,414,530
Total comprehensive income for the period					
Profit for the period	-	-	-	7,481,886	7,481,886
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	7,481,886	7,481,886
Transactions with owners, recorded directly in equity					
Dividend declared (refer note 13)	-	-	-	(6,392,087)	(6,392,087)
Directors fees (refer note 14)	-	-	-	(540,000)	(540,000)
Balance at 30 September 2014 (Unaudited)	129,841,748	2,776,490	(2,000,000)	(37,653,909)	92,964,329

The notes on pages 7 to 14 are an integral part of the condensed consolidated interim financial information.

The review report of the auditors' is set on page 1.

Al Safwa Islamic Financial Services (PJSC) and its subsidiary

Condensed consolidated interim statement of changes in equity

For the nine-month period ended 30 September 2015

	Share capital AED	Statutory reserve AED	Treasury shares AED	Accumulated losses AED	Total AED
Balance at 1 January 2015	129,841,748	3,631,718	(2,000,000)	(37,438,742)	94,034,724
Total comprehensive income for the period					
Loss for the period	-	-	-	(2,501,144)	(2,501,144)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(2,501,144)	(2,501,144)
Transactions with the owners recorded directly in equity					
Dividend declared (refer note 13)	-	-	-	(6,392,087)	(6,392,087)
Directors fees (refer note 14)	-	-	-	(490,000)	(490,000)
Reversal of dividend (refer note 13)	-	-	-	290,000	290,000
Balance at 30 September 2015	129,841,748	3,631,718	(2,000,000)	(46,531,973)	84,941,493

The notes on pages 7 to 14 are an integral part of the condensed consolidated interim financial information.

The review report of the auditors' is set on page 1.

Al Safwa Islamic Financial Services (PJSC) and its subsidiary

Condensed consolidated interim statement of cash flows

For the nine-month period ended 30 September 2015

	30 September 2015 AED (Reviewed)	30 September 2014 AED (Unaudited)
Cash flows from operating activities		
Net (loss)/profit for the period	(2,501,144)	7,481,886
Adjustments for:		
Depreciation	605,898	568,414
Provision for employees' end of service benefits	56,000	72,090
Dividend income	(181,787)	(177,968)
Profit from Murabaha	(235,941)	(249,439)
Operating (loss)/profit before changes in working capital	(2,256,974)	6,086,586
Working capital changes:		
Change in trade receivables, deposits, prepayments and other receivables	(16,879,417)	27,519,618
Change in amount due from related parties	3,297,905	-
Change in trade and other payables	10,787,462	(20,085,688)
Change in due to related parties	-	340,000
Cash flows (used in)/generated from operating activities	(5,051,024)	13,860,517
Less: Employees' end of service benefits paid	-	(70,169)
Net cash flows from (used in)/generated from operating activities	(5,051,024)	13,790,347
Cash flows from investing activities		
Acquisition of property and equipment	(46,889)	(637,702)
Acquisition of investment securities at fair value through profit or loss	-	(5,014,240)
Proceeds from disposal of investment property	5,229,360	-
Acquisition of investment property	(516,838)	-
Profit received from Murabaha	235,941	249,439
Dividend received	181,787	177,968
Net cash flows generated from(used in) investing activities	5,083,361	(3,616,139)
Cash flows from financing activities		
Distribution of general reserve to shareholders	-	(113,522)
Dividend paid	(6,292,087)	(6,052,087)
Directors' fees	(490,000)	(540,000)
Net cash flows used in financing activities	(6,782,087)	(6,705,609)
Net change in cash and cash equivalents	(6,749,750)	3,468,599
Cash and cash equivalents at 1 January	14,571,834	12,671,038
Cash and cash equivalents at 30 September	7,822,084	16,139,637
Cash and cash equivalents at the end of the period comprises:		
Cash at bank and in hand (refer note 8)	34,343,961	43,386,494
Client deposits (refer note 8)	(26,521,877)	(27,246,857)
	7,822,084	16,139,637

The notes on pages 7 to 14 are an integral part of the condensed consolidated interim financial information.

The review report of the auditors' is set out on page 1.

1 Legal status and principal activities

Al Safwa Islamic Financial Services (PJSC) (the "Company") was incorporated on 11 March 2006 in accordance with the provisions of UAE Federal Companies Law No. 8 of 1984.

The principal activity of the Company is brokerage services in local shares and bonds.

On 14 July 2009, the Group established a subsidiary by subscribing to 10,000,000 shares of AED 1 each representing 100% equity share in Al Safwa Capital LLC (the "subsidiary") incorporated in the Emirates of Sharjah in accordance with the provision of the UAE Federal Companies Law no. 8 of 1984 (as amended). The principal activity of the subsidiary is to hold investment properties and invest in shares.

The consolidated financial statements of the Group comprise the Company and its wholly owned subsidiary, Al Safwa Capital LLC (collectively referred to as the "Group").

The registered office of the Group is P.O. Box 185085, Dubai, United Arab Emirates.

2 Significant accounting policies

a) Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim financial information do not include all the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2014.

b) Basis of preparation

The condensed consolidated interim financial information has been prepared on the historical cost basis, except for available for sale investments, investments at fair value through profit or loss (FVTPL) and investment properties.

The accounting policies and methods of computation adopted by the Group in preparation of these condensed consolidated interim financial information are the same as those applied by the Group in its annual audited financial statements as at 31 December 2014.

The preparation of condensed consolidated interim financial information in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2014.

The condensed consolidated interim financial information has been prepared in UAE Dirham's ("AED"), which is the functional currency.

c) Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the annual audited consolidated financial statements as at and for the year ended 31 December 2014.

3 Investment properties

Properties in UAE (Land)

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
At 1 January	**14,646,964**	11,980,613
Unrealised gain on change in fair value during the period/year	**-**	2,166,351
Disposal of investment properties (note 3.1)	**(5,229,360)**	-
Development expenditure (refer note 16.2)	**516,838**	500,000
	9,934,442	14,646,964

3.1 During the period, the Group has disposed of certain investment properties at their carrying values and hence no gain or loss has not been recorded in the profit or loss.

4 Investment at fair value through profit or loss

During the period, the Group invested in a number of quoted equities, all of which have been disposed of prior to the reporting date. The Group has recognised a realised loss of AED 0.6 million *(30 September 2014 gain of AED 1.6 million)* on these investments.

5 Available-for-sale investment

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
National Mass Housing Company (note 5.1) (625,000 shares)	**3,923,864**	3,923,864
Dubai Parks (717,668 shares)	**724,845**	724,845
	4,648,709	4,648,709

The Group has recorded these investments at cost as at the reporting date. The management believes that the fair value of these investments is not significantly different from its carrying value.

5.1 During the period, the Group has received dividend amounting to AED 177,675 from National Mass Housing Company.

6 Trade receivables, deposits, prepayments and other receivables

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
Receivable from customers (note 6.1)	**10,521,975**	11,451,627
Less: Allowance for impairment losses	**(2,623,022)**	(4,037,950)
	7,898,953	7,413,677
Other financial assets-margin deposits (note 14)	**30,000,000**	20,000,000
Other financial deposit (note 6.2)	**12,000,000**	5,000,000
Settlement due from Abu Dhabi Securities Exchange ("ADX")	**-**	1,102,915
Settlement due from Dubai Financial Market ("DFM")	**-**	301,938
Prepayments	**966,475**	482,940
Refundable deposits	**15,000**	15,000
Other receivables	**424,079**	108,621
	51,304,507	34,425,091

Movement in allowance for impairment of receivables:

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
At 1 January	**4,037,950**	5,775,995
Write-off	**(1,414,928)**	(1,738,045)
Closing balance	**2,623,022**	4,037,950

6.1 As at 30 September 2015, market value of securities held as collateral amounted to AED 8.9 million *(31 December 2014: AED 8.9 million)* against the above receivables.

6.2 During the period, the Group deposited an additional amount of AED 12 million with ADX for trading in excess of the assigned trading limit of AED 15 million, for a temporary period.

7 Related party transactions

The Group enters into transactions with companies, individuals and entities that fall within the definition of a related party as contained in International Accounting Standard 24 Related Party Disclosures. Related parties comprise shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Details of transactions carried out with related parties during the period ended 30 September 2015 are as follows:

	30 September 2015 AED (Reviewed)	30 September 2014 AED (Unaudited)
Transactions with shareholders		
Commission income	**286,270**	1,848,538
Dividend to shareholders (refer note 13)	**6,392,087**	6,392,087
Compensation of key management personnel		
Short term benefits	**630,000**	450,000
Long term benefits	**15,000**	15,000
Transaction with directors		
Directors fees (refer note 14)	**490,000**	540,000

Details of balances with related parties as at the balance sheet date are as follows:

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
Balances with related parties		
Amount due from shareholders (note 7.1)	**9,284,548**	12,582,453
Amount due to shareholders	**470,270**	660,273

7.1 Due from shareholders includes past due balance of greater than 90 days amounting to AED 3.1 million *(31 December 2014: AED 4.2 million)*. As at the reporting date, market value of securities held as collateral amounted to AED 0.5 million *(31 December 2014: AED 0.4 million)* against these receivables. Management is of the view that the balance is recoverable and no provision is required.

The remaining amount of due from shareholders comprises of the amount used by the shareholder as margin money for share trading purpose which is fully collateralised by the securities held by the Group.

8 Cash and bank balances

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
Bank balances		
- Client deposits (note 8.1)	**26,521,867**	38,741,640
- Group's bank balance – current account	**7,800,573**	14,561,476
Cash in hand	**21,521**	10,358
	34,343,961	53,313,474

8.1 In accordance with the regulations issued by the Emirates Securities and Commodities Authority ("ESCA") the Group maintains separate bank accounts for advances received from its customers ("clients' money"). The clients' money is not available to the Group other than to settle transactions executed on behalf of the customers maintaining deposits with the Group.

9 Employees' end of service benefits

Movement of end of service benefits is as follows:

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
Provision at the beginning of the period/year	**416,055**	410,168
Provided during the period/year	**56,000**	76,056
Paid during the period/year	**-**	(70,169)
Provision as at the end of the period/year	**472,055**	416,055

10 Trade and other payables

	30 September 2015 AED (Reviewed)	31 December 2014 AED (Audited)
Client money	**17,410,235**	28,067,708
Other liabilities	**655,640**	640,324
Settlement due to ADX	**4,381,325**	-
Settlement due to DFM	**4,828,533**	-
	27,275,733	28,708,032

11 Staff salaries and benefits

	30 September 2015 AED (Reviewed)	30 September 2014 AED (Unaudited)
Staff salaries	**3,261,509**	3,001,475
End of service benefits	**56,000**	72,090
	3,317,509	3,073,565

12 Administrative and general expenses

	30 September 2015 AED (Reviewed)	30 September 2014 AED (Unaudited)
Market expenses	**462,751**	283,211
Rent	**87,431**	82,475
Legal and professional fees	**388,146**	706,661
Repair and maintenance	**86,658**	160,977
Printing and stationery	**4,513**	5,996
Depreciation expenses	**605,898**	568,414
Utilities	**58,608**	65,751
Communication expenses	**427,868**	394,479
Bank charges	**257,659**	209,841
Other expenses	**663,868**	461,609
	3,043,400	2,939,414

13 Dividend declared

At the annual general meeting held on 26 March 2015, it was resolved to pay dividend of AED 6.4 million to the shareholders relating to the year ended 31 December 2014 *(2014: AED 6.4 million relating to the year ended 31 December 2013)*. As at the reporting date, the Group has paid dividend of AED 6.2 million. The remaining balance of AED 0.3 million is appearing in due to related parties (refer note 7).

As of 31 December 2014, the Group had a dividend payable of AED 290,000 to it's shareholder. However, based on the mutual understanding between the parties, this liability has been reversed by the Company during the period.

14 Directors' fees

At the annual general meeting held on 26 March 2015, it was resolved to pay directors' fees of AED 0.5 million relating to the year ended 31 December 2014 *(2014: AED 0.5 million relating to the year ended 31 December 2013)*. As at the reporting date, the Group has paid the entire amount.

15 Accounting estimates and judgments

Significant items where the use of estimates and judgments are required are outlined below:

(i) Impairment of receivable from customers

The Group reviews its receivable balances to assess impairment on a regular basis. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(ii) Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

15 Accounting estimates and judgments (continued)

(ii) Fair value of financial instruments (continued)

a) Fair value hierarchy of assets measured at fair value

30 September 2015 (Reviewed)	**Level 1 AED**	**Level 2 AED**	**Level 3 AED**
Financial assets – Available-for-sale investment	**724,845**	-	**3,923,864**
Non financial assets - Investment properties	-	**9,934,442**	-
	======	========	========

31 December 2014 (Audited)	Level 1 AED	Level 2 AED	Level 3 AED
Financial assets – Available-for-sale investment	724,845	-	3,923,864
Non financial assets - Investment properties	-	14,646,964	-
	=======	========	========

There is no movement in the fair value of available-for-sale investment and hence, level 3 reconciliation is not presented.

16 Contingent liabilities and capital commitments

	30 September 2015 AED	31 December 2014 AED
Letters of guarantee (note 16.1)	**50,000,000**	20,000,000
Development expenditure on investment property (note 16.2)	**1,119,162**	2,136,000
	=========	=========

16.1 The Group has arranged bank guarantees amounting to AED 35,000,000 and AED 15,000,000 to the Dubai Financial Market ("DFM") and Abu Dhabi Securities Exchange ("ADX") respectively, for the Group's fulfilment of obligations under the contract / agreement with DFM and ADX *(31 December 2014: AED10,000,000 for DFM and AED 10,000,000 for ADX)*. The guarantees are secured against the margin deposit of AED 30,000,000 *(31 December 2014: AED 20,000,000)* placed with an Islamic Bank.

16.2 The Group has signed an agreement with a contractor on 2 February 2014 to construct six sheds on a land which is classified as investment property in the Group's consolidated financial statements. The total value of the contract is AED 2.6 million and as at the reporting date the Group has paid AED 1 million as per the agreement.

17 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these condensed consolidated interim financial statement.