

# **Al Safwa Islamic Financial Services (PJSC)**

**Unconsolidated financial statements**  
*For the year ended 31 December 2012*

# Al Safwa Islamic Financial Services (PJSC)

## Unconsolidated financial statements *For the year ended 31 December 2012*

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تأسست سنة ٢٠٠٦م برأسمال ١٢٠ مليون درهم إماراتي

الصفوة  
للخدمات  
الاسلامية

(شركة مساهمة خاصة)

AL SAFWA ISLAMIC FINANCIAL SERVICES (PJSC)

Date: 28<sup>th</sup> Jan 2013

## DIRECTOR'S REPORT

The directors have pleasure in presenting their report together with the audited Financial Statements of AL Safwa Islamic Financial Services PJSC for the year ended December 31, 2012.

Al Safwa Islamic Financial Services PJSC was incorporated on March 11, 2006 in accordance with provision of UAE Federal Companies law No.1984. The company has its PO Box No.185085 registered office of the companies is in Dubai UAE,

### Financial Results

Like previous years, the year 2012 still financial market wrapped up with the financial crises especially the equity market remained under pressure. The company declared a loss of AED1.9 Million.

We hope the year 2013 would be better as we foresee some stability in the region which would have a positive impact on the local market

**The Board of Directors comprises of the following;**

Name	Designation
Sk Abd El Aziz Bn Humaid Bin Rashid Al Noaimi	Chairman
Sk Mohamed Bin Ali Bin Rashid Al Nuaimi	Vice Chairman
Mr. Khalifa Yousif Abdulla Husain Khouri	Board Member
Mr. Ahmed Darwish  Dagher Al Marrer	Board Member
Mr. Khalif Moh'd Al Muhairi	Board Member
Mr. Abd El Aziz Husain Khouri	Board Member
Mr. Murtadha Ahmed Sultan	Board Member
Mr.Ali Hussain Al Sada	Board Member
Mr. Suliman Haider	Board Member

On behalf of the Board, I would like to appreciate the services of the management and employees for dedications and hard work and expect them to perform better in future.

### Auditors

KPMG has been appointed as auditor of the company for the year 2012, as being eligible re-appointment has expressed their willingness to continue for the year 2013

Dr. Yaqoub Ali Saeed  
CEO

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## **Independent Auditors' Report**

The Shareholders  
Al Safwa Islamic Financial Services (PJSC)

### **Report on the Unconsolidated Financial Statements**

We have audited the accompanying unconsolidated financial statements of Al Safwa Islamic Financial Services PJSC ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2012, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Unconsolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated financial statements.

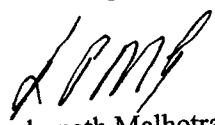
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2012, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the unconsolidated financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law (8) of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; and the contents of the Directors' report which relate to these unconsolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Company or its financial position.

  
Vijendranath Malhotra

# Al Safwa Islamic Financial Services (PJSC)

## Unconsolidated statement of financial position

As at 31 December 2012

	Note	2012 AED	2011 AED
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	4	5,448,207	5,191,452
Investment in subsidiary	5	-	-
<b>Total non-current assets</b>		<u>5,448,207</u>	<u>5,191,452</u>
<b>Current assets</b>			
Available-for-sale investment	6	3,923,864	3,923,865
Trade receivables, deposits, prepayments and other receivables	7	39,933,387	41,662,861
Amount due from related parties	8	26,906,129	20,044,203
Cash and bank balances	9	27,729,673	37,623,225
<b>Total current assets</b>		<u>98,493,053</u>	<u>103,254,154</u>
<b>Total Assets</b>		<u><u>103,941,260</u></u>	<u><u>108,445,606</u></u>
<b>Equity</b>			
Share capital	10	129,841,748	129,841,748
Statutory reserve	10	1,934,871	1,934,871
General reserve	10	1,934,871	1,934,871
Treasury shares	11	(2,000,000)	(2,000,000)
Accumulated losses		(46,924,939)	(42,669,288)
<b>Total equity</b>		<u>84,786,551</u>	<u>89,042,202</u>
<b>Non-current liabilities</b>			
Employees' end of service benefits	12	362,576	439,031
<b>Current liabilities</b>			
Trade and other payables	13	17,353,852	18,663,013
Amount due to related parties	8	290,000	301,360
Zakat payable	16	1,148,281	-
<b>Total current liabilities</b>		<u>18,792,133</u>	<u>18,964,373</u>
<b>Total Liabilities</b>		<u>19,154,709</u>	<u>19,403,404</u>
<b>Total Equity and Liabilities</b>		<u><u>103,941,260</u></u>	<u><u>108,445,606</u></u>

The notes on pages 8 to 23 are an integral part of these unconsolidated financial statements.

These unconsolidated financial statements were approved and authorised for issue by the Board of Directors on January 28<sup>th</sup> 2013 and signed on its behalf by

  
Chairman

The independent auditors' report is set out on page 2.

**Al Safwa Islamic Financial Services (PJSC)**  
**Unconsolidated statement of comprehensive income**  
*For the year ended 31 December 2012*

	<i>Note</i>	<b>2012 AED</b>	<b>2011 AED</b>
Commission income		<b>3,627,900</b>	6,310,650
Other income		<b>4,117</b>	126,792
		<hr/>	<hr/>
<b>Total income</b>		<b>3,632,017</b>	6,437,442
Staff salaries and benefits	14	<b>(3,444,337)</b>	(4,207,185)
Advertisement and business promotion		<b>(120,991)</b>	(95,727)
Administrative and general expenses	15	<b>(4,423,339)</b>	(4,771,530)
Impairment loss on receivables	7	-	(3,558,135)
		<hr/>	<hr/>
<b>Net loss from brokerage operations</b>		<b>(4,356,650)</b>	(6,195,135)
Impairment on investment in subsidiary	5	-	(998,298)
Reversal of impairment on amount due from subsidiary	8	<b>2,451,500</b>	(13,870,259)
		<hr/>	<hr/>
<b>Net loss for the year</b>		<b>(1,905,150)</b>	(21,063,692)
		<hr/>	<hr/>
Other comprehensive income for the year		-	-
		<hr/>	<hr/>
<b>Total comprehensive loss for the year</b>		<b>(1,905,150)</b>	(21,063,692)
		<hr/>	<hr/>

The notes on pages 8 to 23 are an integral part of these unconsolidated financial statements.  
The independent auditors' report is set out on page 2.

# **Al Safwa Islamic Financial Services (PJSC)**

## **Unconsolidated statement of changes in equity**

*For the year ended 31 December 2012*

	Share capital AED	Statutory reserve AED	General reserve AED	Treasury shares AED	Accumulated losses AED	Total AED
At 1 January 2012	129,841,748	1,934,871	1,934,871	(2,000,000)	(42,669,288)	89,042,202
<b>Total comprehensive loss for the year</b>	-	-	-	-	(1,905,150)	(1,905,150)
Loss for the year	-	-	-	-	-	-
Other comprehensive income for the year	-	-	-	-	(1,905,150)	(1,905,150)
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	-
<b>Transactions with owners, recorded directly in equity</b>	-	-	-	-	(2,350,501)	(2,350,501)
Zakat (refer note 16)	-	-	-	-	-	-
<b>At 31 December 2012</b>	<b>129,841,748</b>	<b>1,934,871</b>	<b>1,934,871</b>	<b>(2,000,000)</b>	<b>(46,924,939)</b>	<b>84,786,551</b>

The notes on pages 8 to 23 are an integral part of these unconsolidated financial statements.

The independent auditors' report is set on page 2.

# Al Safwa Islamic Financial Services (PJSC)

Unconsolidated statement of changes in equity  
For the year ended 31 December 2012

	Share capital AED	Statutory reserve AED	General reserve AED	Employees' performance share program AED	Accumulated losses AED	Total AED
At 1 January 2011	129,841,748	1,934,871	1,934,871	(2,000,000)	(21,605,596)	110,105,894
<b>Total comprehensive loss for the year</b>						
Loss for the year	-	-	-	-	(21,063,692)	(21,063,692)
Other comprehensive income for the year	-	-	-	-	-	-
<b>Total comprehensive loss for the year</b>	-	-	-	-	(21,063,692)	(21,063,692)
<b>Transactions with owners, recorded directly in equity</b>						
Zakat (refer note 16)	-	-	-	-	-	-
<b>At 31 December 2011</b>	129,841,748	1,934,871	1,934,871	(2,000,000)	(42,669,288)	89,042,202

The notes on pages 8 to 23 are an integral part of these unconsolidated financial statements.

The independent auditors' report is set on page 2.

# Al Safwa Islamic Financial Services (PJSC)

## Unconsolidated statement of cash flows

For the year ended 31 December 2012

	2012 AED	2011 AED
<b>Cash flows from operating activities</b>		
Net loss for the period	(1,905,150)	(21,063,692)
<i>Adjustments for:</i>		
Depreciation	504,764	533,810
Provision for employees' end of service benefits	132,525	127,134
Impairment loss on receivables	-	3,558,135
Impairment on investment in subsidiary	-	998,298
Reversal of impairment on amount due from subsidiary	(2,451,500)	13,870,259
Profit from Murabaha	(4,117)	(126,792)
	<u>(3,723,478)</u>	<u>(2,082,848)</u>
<i>Operating loss before changes in working capital</i>		
<i>Working capital changes:</i>		
Change in trade receivables, deposits, prepayments and other receivables	1,729,474	12,933,386
Change in amount due from related parties	(4,410,426)	(1,021,761)
Change in trade and other payables	(96,712)	942,188
Change in amount due to related parties	(11,360)	(904,325)
	<u>(6,512,502)</u>	<u>9,866,640</u>
<i>Cash flows (used in)/from operating activities</i>	<u>(1,202,220)</u>	<u>(1,449,545)</u>
Zakat paid	(208,980)	(59,696)
Employees' end of service benefits paid		
	<u>(7,923,702)</u>	<u>8,357,400</u>
<i>Net cash flows (used in)/from operating activities</i>		
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(761,519)	(125,101)
Profit received from Murabaha	4,117	126,792
Reduction in available for sale investment	-	2,369,633
	<u>(757,402)</u>	<u>2,371,324</u>
<i>Net cash flows (used in)/from investing activities</i>		
<b>Net cash flows from financing activities</b>		
	<u>(8,681,104)</u>	<u>10,728,724</u>
<b>Net change in cash and cash equivalents</b>		
Cash and cash equivalents at 1 January	19,548,775	8,820,051
Cash and cash equivalents at 31 December	<u>10,867,671</u>	<u>19,548,775</u>
<b>Cash and cash equivalents at the end of year comprises:</b>		
Cash at bank and in hand	27,729,673	37,623,225
Client deposits (refer note 9)	(16,862,002)	(18,074,450)
	<u>10,867,671</u>	<u>19,548,775</u>

The notes on pages 8 to 23 are an integral part of these unconsolidated financial statements.  
The report of the independent auditors' report is set out on page 2.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 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. 1984.

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

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

On 14 July 2009, the Company 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.

### 2 Basis of preparation

These unconsolidated financial statements reflect the operating results and financial position of the Company only and do not include the operating results and financial position of its subsidiary. The consolidated financial statements for the year ended 31 December 2012 should be referred to for a better understanding of the operating results and financial position of the Company and its subsidiary.

#### a) Statement of compliance

The unconsolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and comply with the requirements of Federal Law No 8 of 1984 (as amended).

#### b) Basis of measurement

The unconsolidated financial statements have been prepared on the historical cost basis except for available-for-sale investment which are stated at fair value.

#### c) Functional currency and presentation currency

The unconsolidated financial statements have been presented in UAE Dirhams ("AED"), which is also the functional currency of the Company.

#### d) Use of estimate and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### d) Use of estimate and judgments (*continued*)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the unconsolidated financial statements and estimates with a risk of material adjustment in the next year are discussed in note 17.

### 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these unconsolidated financial statements.

#### a) Revenue recognition

##### Commission income

The Company earns commission income on sale and purchase of shares and bonds on behalf of its customers. Commission income is recognised on an accrual basis when services are rendered and the right to receive is established.

##### Murabaha income

Murabaha income is recognised on an accrual basis using effective profit rate method.

#### b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the unconsolidated statement of comprehensive income during the period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the unconsolidated statement of comprehensive income.

With the exception of capital work in progress, depreciation is charged, so as to write-off the cost over their estimated useful lives, using the straight-line method, as follows:

	Life (years)
Furniture and fixtures	3 years
Computer equipment	3 years
Office building	15 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 3 Significant accounting policies *(continued)*

#### c) Subsidiaries

Subsidiaries are those enterprises, which are controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The operating results and financial position of the subsidiary are included in the consolidated financial statements from the date that control effectively commences up to the date that control effectively ceases. In the unconsolidated financial statements, subsidiaries are stated at cost, less impairment, if any.

#### d) Offsetting

Financial assets and liabilities are offset and the net amount is reported on the reporting date only when the Company has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

#### e) Financial instruments

Non-derivative financial instruments comprise available for sale investment, trade and other receivables (except prepayments), cash and cash equivalents, trade and other payables and related party balances.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

##### Available-for-sale financial assets

Available-for-sale financial assets are non derivative financial assets that are not designated as another category of financial assets. Subsequent to initial recognition, they are measured at fair value and change therein, other than impairment losses are recognised directly in equity. When an investment is de-recognised, the cumulative gain or loss is transferred to the unconsolidated statement of comprehensive income.

##### Other

Other non-derivative financial instruments are measured at amortised cost using the effective profit method, less any impairment losses.

#### f) Impairment

##### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 3 Significant accounting policies *(continued)*

#### f) Impairment *(continued)*

##### Financial assets *(continued)*

An impairment loss in respect of an asset measured at amortised cost is calculated as the differences between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective profit rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

In case of available-for-sale investments, a significant or prolonged decline in the fair value below cost is considered an objective evidence of impairment.

All impairment losses are recognised in the unconsolidated statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the unconsolidated statement of comprehensive income.

##### Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### g) Provisions

A provision is recognised in the unconsolidated statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

#### h) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks, which includes the Company's bank balances and client deposits and short term bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### i) Define contribution plan

UAE national employees of the Company in the United Arab Emirates ("UAE") are members of the Government-managed retirement pension and social security benefit scheme established pursuant to Federal Labor Law No. 7 of 1999. The only obligation of the Company in the UAE with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the unconsolidated statement of comprehensive income.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### **3 Significant accounting policies** *(continued)*

#### **j) Provision for employees' end of service benefits**

Provision for employees' end of service benefits is made in accordance with the UAE labour laws and is based on current remuneration and cumulative years of service at the unconsolidated statement of financial position date.

#### **k) Employees' performance share program**

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the options are granted. The cost of equity-settled transactions with employees is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled ending on the date on which the employees become fully entitled to the award (vesting date). However, as at the year end, no employees have been issued the share options as part of the employees' performance share program and hence these are presented as treasury shares in the unconsolidated statement of financial position.

#### **l) Zakat**

Zakat is provided for in accordance with the Company's articles of association and is payable on behalf of the shareholders. The rate of Zakat for the year is calculated at a rate of 2.5% of net assets, in accordance with the resolution of the Board of Directors as advised by the Company's Sharia' Committee.

#### **m) Foreign currency transactions**

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. Gains and losses arising from foreign currency transactions are included in the unconsolidated statement of comprehensive income.

#### **n) New standards and interpretations applicable but not yet effective**

A number of new standards, amendments to standards and interpretations that are issued but not effective for accounting period starting 1 January 2012, and have not been early adopted in preparing these unconsolidated financial statements. None of these is expected to have a significant effect on the unconsolidated financial statements of the Company.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 4 Property and equipment

	Computer equipment AED	Furniture and fixtures AED	Office building AED	Capital work in progress AED	Total AED
<b><u>Cost</u></b>					
Balance at 1 January 2012	2,594,374	613,464	6,015,000	112,500	9,335,338
Additions	424,019	-	-	337,500	761,519
Transferred from CWIP	450,000	-	-	(450,000)	-
Balance at 31 December 2012	<u>3,468,393</u>	<u>613,464</u>	<u>6,015,000</u>	<u>-</u>	<u>10,096,857</u>
<b><u>Accumulated depreciation</u></b>					
Balance 1 January 2012	2,444,043	596,818	1,103,025	-	4,143,886
Depreciation for the year	89,082	13,583	402,099	-	504,764
Balance at 31 December 2012	<u>2,533,125</u>	<u>610,401</u>	<u>1,505,124</u>	<u>-</u>	<u>4,648,650</u>
<b><u>Net book value</u></b>					
At 31 December 2012	<u>935,268</u>	<u>3,063</u>	<u>4,509,876</u>	<u>-</u>	<u>5,448,207</u>
	Computer equipment AED	Furniture and fixtures AED	Office building AED	Capital work in progress AED	Total AED
<b><u>Cost</u></b>					
Balance at 1 January 2011	2,475,858	606,879	6,015,000	112,500	9,210,237
Additions	118,516	6,585	-	-	125,101
Balance at 31 December 2011	<u>2,594,374</u>	<u>613,464</u>	<u>6,015,000</u>	<u>112,500</u>	<u>9,335,338</u>
<b><u>Accumulated depreciation</u></b>					
Balance 1 January 2011	2,372,687	548,323	669,066	-	3,590,076
Depreciation for the year	71,356	48,495	433,959	-	553,810
Balance at 31 December 2011	<u>2,444,043</u>	<u>596,818</u>	<u>1,103,025</u>	<u>-</u>	<u>4,143,886</u>
<b><u>Net book value</u></b>					
At 31 December 2011	<u>150,331</u>	<u>16,646</u>	<u>4,911,975</u>	<u>112,500</u>	<u>5,191,452</u>

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 5 Investment in subsidiary

	2012 AED	2011 AED
At cost:	998,298	998,298
Unquoted shares	(998,298)	(998,298)
Less: Impairment (note 5.2)	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

#### 5.1 Detail of the subsidiary is as follows:

Name of subsidiary	Country of Incorporation	Principal Activities	Effective ownership interest	
			31 December 2012	31 December 2011
Al Safwa Capital LLC	UAE	Investment Company	100%	100%

- 5.2 At 31 December 2011, investment in subsidiary was fully impaired due to downward movement in fair value of investment properties held by the subsidiary and disposal of investment properties at a realised loss.

### 6 Available-for-sale investment

In June 2008, the Company subscribed to 625,000 shares of the National Mass Housing Co. SAOC incorporated in the Sultanate of Oman. These shares were allocated to the Company during the second quarter of 2010. The cost of these shares is AED 3,923,865 (31 December 2011: AED 3,923,865) which represents an equity stake of 2.5%. The management believes that the fair value of this investment is not significantly different from its carrying value.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 7 Trade receivables, deposits, prepayments and other receivables

	2012 AED	2011 AED
Receivable from customers (note 7.1)	20,059,934	21,100,635
Less: Allowance for impairment losses	(5,775,995)	(5,848,437)
	<u>14,283,939</u>	<u>15,252,198</u>
Other financial assets-margin deposits	20,000,000	16,650,000
Settlement due from Abu Dhabi Securities		
Exchange	827,313	2,659,558
Settlement due from Dubai Financial Market	4,131,576	5,623,059
Prepayments	486,398	345,919
Refundable deposits	40,750	40,750
Other receivables	163,411	1,091,377
	<u>39,933,387</u>	<u>41,662,861</u>

#### Movement in allowance for impairment of receivables:

	2012 AED	2011 AED
At 1 January	5,848,437	2,290,302
Charge for the year	-	3,558,135
Write-off	(72,442)	-
	<u>5,775,995</u>	<u>5,848,437</u>

- 7.1 As at 31 December 2012, market value of securities held as collateral amounted to AED 13.5 million (31 December 2011: AED 13.7 million) against the above receivables.

### 8 Related party transactions

The Company 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 Company and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 8 Related party transactions *(continued)*

Details of transactions carried out with related parties during the year ended 31 December 2012 are as follows:

	2012 AED	2011 AED
Transactions with shareholders	250,741	91,614
Commission income	<u>          </u>	<u>          </u>
Compensation of key management personnel	530,000	600,000
Short term benefits	80,000	190,000
Long term benefits	<u>          </u>	<u>          </u>

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

	2012 AED	2011 AED
Balances with related parties	17,772,545	15,998,245
Amount due from shareholders (note 8.1)	9,133,584	4,045,958
Amount due from subsidiary (note 8.2)	<u>26,906,129</u>	<u>20,044,203</u>
Amount due to shareholders	<u>290,000</u>	<u>301,360</u>

- 8.1 Due from shareholders includes past due balance of greater than 180 days amounting to AED 15.8 million which are not provided as these are considered to be recoverable.

As at 31 December 2012, market value of securities held as collateral amounted to AED 12 million against these receivables.

#### 8.2 Impairment on amount due from subsidiary

During 2011, an impairment loss of AED 13.8 million was recorded on amount due from subsidiary, due to losses in the subsidiary subsequent to the disposal of the investment properties and due to downward movement in fair value of investment properties held by the subsidiary.

During the current year, there has been a reversal of impairment of AED 2.4 million due to increase in the fair value of investment properties held by the subsidiary as valued by an external valuer.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 9 Cash and bank balances

	2012 AED	2011 AED
Bank balances		
- Client deposits (Note 9.1)	16,862,002	18,074,450
- Company's bank balances	10,862,196	19,546,062
Cash in hand	5,475	2,713
	<u>27,729,673</u>	<u>37,623,225</u>

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

### 10 Share capital and reserves

	2012 AED	2011 AED
Authorised, issued and fully paid up:		
129,841,748 shares of AED 1 each	<u>129,841,748</u>	<u>129,841,748</u>
Statutory reserve		

In accordance with United Arab Emirates Federal Companies Law Number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution except as stipulated by the Law.

#### General reserve

As required by the Company's article of association, 10% of the profit for the year has to be transferred to legal reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital or at the discretion of the shareholders. This reserve is attributable at the discretion of the shareholders.

### 11 Employees' performance share program

During 2006, the Company established an Employees' Performance Share Program (the "Program") to recognise and retain good performing staff. The program gives the employee the right to purchase the Company's shares at par value. The shares carry full dividend and voting rights, and the option can be exercised at any time from the stipulated vested dates on the condition that the employee is still under employment at the exercise date. There are no cash settlement alternatives and the options have no contractual expiry date.

The Company had issued share options to a number of employees. The options gave the employees the right to purchase 50,000 shares (2011: 50,000 shares) at par value of AED 1 per share. However, these employees are no longer in employment with the Company and they have not exercised the options. As at the year end, no employees have been issued the share options and hence these are presented as treasury shares in the unconsolidated statement of financial position.

A related party acquired 2,000,000 shares of the Company's shares on behalf of the employees for the purpose of the Program. The related party has confirmed that it is holding these shares on behalf of the employees for this purpose.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 12 Employees' end of service benefits

Movement of end of service benefits are as follows:

	2012 AED	2011 AED
Provision at the beginning of the year	439,031	371,593
Provided during the year	132,525	127,134
Paid during the year	(208,980)	(59,696)
	<u>362,576</u>	<u>439,031</u>
Provisions as at the end of the year		

### 13 Trade and other payables

	2012 AED	2011 AED
Advance from customers	16,862,002	18,063,134
Other liabilities	491,850	599,879
	<u>17,353,852</u>	<u>18,663,013</u>

### 14 Staff salaries and benefits

	2012 AED	2011 AED
Staff salaries	2,897,741	3,102,566
Other benefits	511,017	977,485
End of service benefits	35,579	127,134
	<u>3,444,337</u>	<u>4,207,185</u>

### 15 Administrative and general expenses

	2012 AED	2011 AED
Market expenses	332,920	357,825
Professional fees	177,804	611,521
Legal expense	893,943	-
Repair and maintenance	81,335	214,880
Printing and stationery	42,919	16,970
Depreciation expense	504,764	553,810
Utilities	82,860	98,591
Communication expense	867,645	832,759
Bank charges	393,153	642,900
Other expenses	1,045,996	1,442,274
	<u>4,423,339</u>	<u>4,771,530</u>

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the consolidated financial statements

### 16 Zakat payable

The amount of Zakat payable for the year ended 31 December 2011 as calculated by the Shariah' committee of AED 1.2 million has been paid during the year. Zakat payable for the year ended 31 December 2012 as calculated by the Shariah' committee of the Company amounts to AED 1.1 million.

### 17 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 Company 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 unquoted securities

##### *Fair value hierarchy*

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in the making the measurements:

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

Level 2: Valuation techniques based on observable input, 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; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	Level 1 AED	Level 2 AED	Level 3 AED
<b>2012</b>			
Financial assets – Available-for-sale	-	-	3,923,865
	<u>          </u>	<u>          </u>	<u>          </u>
<b>2011</b>			
Financial assets – Available-for-sale	-	-	3,923,865
	<u>          </u>	<u>          </u>	<u>          </u>

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

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 18 Financial risk management

#### Overview

The Company is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Directors are responsible for day-to-day monitoring of the Company's exposure to each of the credit, liquidity, market and operational risks.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

#### a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivable from customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The exposure to credit risk on these facilities is monitored on an on-going basis by the management.

The Company has a policy in place under which each new customer is analysed individually for creditworthiness before the Company allows these customers to open a trading account with the Company.

The carrying amounts of financial assets represent the maximum credit risk exposure at the reporting date. At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2012 AED	2011 AED
Trade receivable, deposits, other receivables	39,446,989	41,316,942
Due from related parties	26,906,129	20,044,203
Cash and cash equivalents	27,724,198	37,620,512
	<u>94,077,316</u>	<u>98,981,657</u>

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 18 Financial risk management (continued)

#### a) Credit risk (continued)

Cash and cash equivalents are daily clearance and settlement balances with various banks. These balances are held in the UAE.

#### Impairment

The aging of trade receivables and related parties are as follows:

	2012 AED	2011 AED
Not past due	-	-
Past due	4,426,062	1,307,503
Past due 0-30 days	1,147,961	1,682,245
Past due 31-180 days	41,392,040	38,155,090
More than 180 days	46,966,063	41,144,838
Less: Allowance for impairment losses	(5,775,995)	(5,848,437)
	<u>41,190,068</u>	<u>35,296,401</u>

Receivables considered doubtful have been fully provided. The remaining receivables are covered by adequate security and payment plans (where applicable). The maximum exposure to credit risk for financial assets is concentrated within the GCC.

#### b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The financial liabilities of the Company comprise mainly trade and other payables, Zakat payable and related party balances which are non-profit bearing with maturity of less than six months. The contractual values of the Company's financial liabilities are not significantly different from their carrying amounts in the unconsolidated statement of financial position.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 18 Financial risk management (continued)

#### c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, equity prices and profit rate, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

##### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not have significant exposure to currency risk because substantial transactions are denominated in the functional currency of the Company.

##### *Profit rate risk*

The Company does not have significant exposure to profit rate risk as majority of its instruments as at 31 December 2012 are non profit bearing (As at 31 December 2011: the Company held profit bearing variable instrument of AED 1,500,000).

##### *Equity price risk*

Equity price risk arises from the change in fair value of equity investments.

##### *Sensitivity*

The Company's available for sale investment is unquoted (refer note 6). An increase of 100 basis points in fair value as at reporting date would have increased the net assets attributable to the Company and profit for the year by AED 39,238 (2011: AED 39,238). A decrease would have had the same but opposite effect.

##### *Fair value*

The fair value of the Company's financial assets and liabilities as at 31 December 2012 and 31 December 2011 approximate their carrying amounts.

#### d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

To mitigate the operational risk, the Company has obtained fidelity and indemnity insurance cover against possible errors from its brokers while executing customers' orders for trades of securities in stock markets. Compliance with policies and procedures is supported by periodic reviews with the management of the business unit to which they relate.

# Al Safwa Islamic Financial Services (PJSC)

## Notes to the unconsolidated financial statements

### 18 Financial risk management (continued)

#### e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

#### Regulatory capital

The Company's lead regulator, Emirates Securities and Commodities Authority (ESCA), sets and monitors the regulatory capital requirements of the Company. The Company's regulatory capital set by ESCA is AED 30 million.

There were no changes in the Company's approach to the capital management during the year. The Company has complied with all externally imposed capital requirements throughout the period.

### 19 Contingent liabilities and capital commitments

	2012 AED	2011 AED
Letters of guarantee	20,000,000	25,000,000

The Company has arranged bank guarantees amounting to AED 10,000,000 and AED 10,000,000 to the Dubai Financial Market ("DFM") and Abu Dhabi Securities Exchange ("ADX") respectively, for the Company's fulfilment of obligations under the contract / agreement with DFM and ADX (31 December 2011: AED 15,000,000 for DFM and AED 10,000,000 for ADX). The guarantees are secured against the margin deposit of AED 20,000,000 (31 December 2011: AED 16,650,000) placed with an Islamic Bank.

### 20 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these unconsolidated financial statements.