

Al Safwa Islamic Financial Services (PrJSC)

Condensed consolidated interim financial information

31 March 2016

Al Safwa Islamic Financial Services (PrJSC)

Condensed consolidated interim financial information (Reviewed)

For the three-month period ended 31 March 2016

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

The shareholders
Al Safwa Islamic Financial Services (PrJSC)

Introduction

We have reviewed the accompanying 31 March 2016 condensed consolidated interim financial information of Al Safwa Islamic Financial Services (PrJSC) ("the Company") and its subsidiary ("the Group"), consisting of:

- the condensed consolidated interim statement of financial position as at 31 March 2016;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2016;
- the condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2016;
- the condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2016; 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 31 March 2016 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 statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the three-month period ended 31 March 2015 are not reviewed and we do not express any conclusion on these statements.

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No: 793
Date: 27 APR 2016

Al Safwa Islamic Financial Services (PrJSC)

Condensed consolidated interim statement of financial position

As at 31 March 2016

		31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
	<i>Note</i>		
Assets			
Non-current assets			
Property and equipment		3,337,410	3,461,557
Investment properties	3	12,579,354	12,311,394
Total non-current assets		15,916,764	15,772,951
Current assets			
Available-for-sale investment	4	4,648,709	4,648,709
Trade receivables, deposits, prepayments and other receivables	5	46,513,948	42,505,736
Amount due from related parties	6	14,981,008	7,551,432
Cash and bank balances	8	34,411,929	35,757,122
Total current assets		100,555,593	90,462,999
Total assets		116,472,358	106,235,950
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		(48,326,521)	(46,512,851)
Total equity		83,146,945	84,960,615
Liabilities			
Non-current liabilities			
Employees' end of service benefits	9	415,872	664,374
Current liabilities			
Trade and other payables	10	32,669,541	20,140,688
Amount due to related parties	6	240,000	470,273
Total current liabilities		32,909,541	20,610,961
Total liabilities		33,325,413	21,275,335
Total equity and liabilities		116,472,358	106,235,950

The notes on pages 6 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 27 APR 2016 and signed on its behalf by:



Chairman

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

Al Safwa Islamic Financial Services (PrJSC)

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

For the three-month period ended 31 March 2016

		31 March 2016 AED (Reviewed)	31 March 2015 AED (Reviewed)
	<i>Note</i>		
Commission income		1,934,662	1,003,739
Other income		105,315	78,068
		-----	-----
Total income		2,039,977	1,081,807
Staff salaries and benefits	11	(1,257,295)	(1,039,314)
Advertisement and business promotion		(7,540)	(4,556)
Administrative and general expenses	12	(2,338,933)	(909,122)
Impairment charge	7	(249,879)	-
		-----	-----
Net loss for the period		(1,813,670)	(871,185)
		=====	=====
Other comprehensive income for the period		-	-
		-----	-----
Total comprehensive loss for the period		(1,813,670)	(871,185)
		=====	=====

The notes on pages 6 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 (PrJSC)

Condensed consolidated interim statement of changes in equity

For the three-month period ended 31 March 2016

	Share capital AED	Statutory reserve AED	Treasury shares AED	Accumulated losses AED	Total AED
At 1 January 2016	129,841,748	3,631,718	(2,000,000)	(46,512,851)	84,960,615
Total comprehensive income					
Loss for the period	-	-	-	(1,813,670)	(1,813,670)
<i>Other comprehensive income</i>	-	-	-	-	-
	-----	-----	-----	-----	-----
Total comprehensive loss for the period	-	-	-	(1,813,670)	(1,813,670)
	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----
At 31 March 2016 (Reviewed)	129,841,748	3,631,718	(2,000,000)	(48,326,521)	83,146,945
	=====	=====	=====	=====	=====
At 1 January 2015	129,841,748	3,631,718	(2,000,000)	(37,438,742)	94,034,724
Total comprehensive income					
Loss for the period	-	-	-	(871,185)	(871,185)
<i>Other comprehensive income</i>	-	-	-	-	-
	-----	-----	-----	-----	-----
Total comprehensive loss for the period	-	-	-	(871,185)	(871,185)
	-----	-----	-----	-----	-----
Transactions with 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
	-----	-----	-----	-----	-----
At 31 March 2015 (Reviewed)	129,841,748	3,631,718	(2,000,000)	(44,902,014)	86,571,452
	=====	=====	=====	=====	=====

The notes on pages 6 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 (PrJSC)

Condensed consolidated interim statement of cash flow

For the three-month period ended 31 March 2016

	31 March 2016 AED (Reviewed)	31 March 2015 AED (Reviewed)
Cash flows from operating activities		
Net loss for the period	(1,813,670)	(871,185)
<i>Adjustments for:</i>		
Depreciation	124,147	201,872
Provision for employees' end of service benefits	21,000	21,000
Impairment charge	249,879	-
Profit from murabaha	(99,999)	(75,000)
	-----	-----
<i>Operating loss before changes in working capital</i>	(1,518,643)	(723,313)
Working capital changes:		
Change in trade receivables, deposits, prepayments and other receivables	(4,258,091)	(3,397,211)
Change in amount due from related parties	(7,429,576)	92,836
Change in trade and other payables	3,736,107	13,602,690
Change in amount due to related parties	(230,273)	-
	-----	-----
<i>Cash flows (used in)/generated from operating activities</i>	(9,700,476)	9,575,002
Less: Employees' end of service benefits paid	(269,502)	-
	-----	-----
<i>Net cash (used in)/generated from operating activities</i>	(9,969,978)	9,575,002
	-----	-----
Cash flows from investing activities		
Acquisition of property and equipment	-	(37,289)
Profit received from murabaha	99,999	75,000
Development expenditure on investment property	(267,960)	-
	-----	-----
<i>Net cash flows (used in)/generated from investing activities</i>	(167,961)	37,711
	-----	-----
Cash flows from financing activities		
Dividend to shareholders	-	(1,540,000)
Directors' bonus	-	(190,000)
	-----	-----
<i>Net cash flows used in financing activities</i>	-	(1,730,000)
	-----	-----
Net change in cash and cash equivalents	(10,137,939)	7,882,713
Cash and cash equivalents at 1 January	15,104,919	14,571,834
	-----	-----
Cash and cash equivalents at 31 March	4,966,980	22,454,547
	-----	-----
Cash and cash equivalents at the end of period comprising of:		
Cash at bank and in hand (refer note 8)	34,411,929	53,297,591
Client deposits	(29,444,949)	(30,843,044)
	-----	-----
	4,966,980	22,454,547
	=====	=====

The notes on pages 6 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 (PrJSC)

Notes to the condensed consolidated interim financial information

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.

On 26 November 2015, the Company has been listed on the Dubai Financial Market ("DFM") as a Private Joint Stock Company (PrJSC).

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 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. 2 of 2015. The principal activity of the subsidiary is to hold investment properties.

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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 "Interim Financial Reporting" and comply with the requirements of UAE Federal Law No. 2 of 2015. UAE Federal Law No. 2 of 2015 being the commercial Companies Law ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the new UAE Companies Law of 2015 by 30 June 2016 as per the transitional provisions contained therein.

The condensed consolidated 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 2015 which have been prepared in accordance with IFRS.

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, which are measured at fair value.

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 consolidated financial statements as at 31 December 2015.

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

2 Significant accounting policies *(continued)*

b) Basis of preparation *(continued)*

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the 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 2015.

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

c) Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the annual audited financial statements as at and for the year ended 31 December 2015.

3 Investment properties

Properties in UAE (Land)

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
At 1 January	12,311,394	14,646,964
Unrealised gain on change in fair value during the period/year	-	2,021,986
Disposal of investment properties	-	(5,229,360)
Development expenditure (refer note 16.2)	267,960	871,804
	12,579,354	12,311,394

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

4 Available-for-sale investment

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
National Mass Housing Company (625,000 shares)	3,923,864	3,923,864
Dubai Parks and Resorts (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 Trade receivables, deposits, prepayments and other receivables

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
Receivable from customers (refer note 5.1)	8,650,388	8,845,923
Less: Allowance for impairment losses (refer note 5.3)	(740,334)	(804,404)
	-----	-----
Net receivable from customers	7,910,054	8,041,519
Other financial assets-margin deposits (refer note 16.1)	30,000,000	30,000,000
Other financial deposit (refer note 5.2)	5,000,000	-
Settlement due from Dubai Financial Market ("DFM")	-	3,006,779
Settlement due from Abu Dhabi Securities Exchange ("ADX")	2,579,545	712,504
Prepayments	760,286	583,455
Refundable deposits	15,000	15,000
Other receivables	249,063	146,479
	-----	-----
	46,513,948	42,505,736
	=====	=====

5.1 As at 31 March 2016, market value of securities held as collateral amounted to AED 7.6 million (31 December 2015: AED 7.7 million) against the above receivables.

5.2 During the period, the Group deposited an additional amount of AED 5 million with ADX for trading in excess of the assigned trading limit of AED 15 million, for a temporary period (31 December 2015: Nil).

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

5 Trade receivables, deposits, prepayments and other receivables (continued)

5.3 Movement in allowance for impairment of receivables:

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
At 1 January	804,404	4,037,950
Charge for the period/year	-	519,629
Write off	-	(2,014,928)
Release of provision	(64,070)	(1,738,247)
	-----	-----
Closing balance	740,334	804,404
	=====	=====

6 Related party transactions

The Group enters into transactions with companies, individuals and entities that fall within the definition of a related party as stipulated in International Accounting Standard 24 "Related Party Disclosures". Related parties comprise of 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 three month period ended 31 March 2016 are as follows:

	31 March 2016 AED (Reviewed)	31 March 2015 AED (Reviewed)
Transaction with shareholders		
Commission income	1,221,290	-
Dividend to shareholders	-	6,392,087
	=====	=====
Compensation of key management personnel		
Short term benefits	420,000	210,000
Long term benefits	17,500	5,000
	=====	=====
Transaction with directors		
Directors' fees	-	490,000
	=====	=====

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

6 Related party transactions (*continued*)

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

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
Balances with related parties		
Due from related parties		
Amount due from shareholders (refer note 6.1)	14,981,008 =====	7,551,432 =====
Due to related parties		
Amount due to shareholders	240,000 =====	470,273 =====

- 6.1** Due from shareholders includes past due balance of greater than 90 days amounting to AED 6.2 million (*31 December 2015: AED 9 million*) against which no provision has been made as these are considered to be recoverable by the directors.

As at 31 March 2016, market value of securities held as collateral amounted to AED 15 million (*31 December 2015: AED 7 million*) against these receivables.

During the period, the Group has written off a receivable balance with a shareholder amounting to AED 2 million (*31 December 2015: AED 2.7 million*) against which a provision of AED 1.7 million was held.

7 Impairment charge

	31 March 2016 AED (Reviewed)	31 March 2015 AED (Reviewed)
Release of provision on receivable from customers (refer note 5.3)	(64,070)	-
Write-off of amount due from shareholder (refer note 6.1)	313,949 -----	-
	249,879 =====	- =====

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

8 Cash and bank balances

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
Bank balances		
- Client deposits (refer note 8.1)	29,444,949	20,652,203
- Group's bank balance – current account	4,957,064	15,090,370
Cash in hand	9,916	14,549
	-----	-----
	34,411,929	35,757,122
	=====	=====

- 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.

9 Employees’ end of service benefits

Movement of end of service benefits are as follows:

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
Provision at the beginning of the period/year	664,374	416,055
Provided during the period/year	21,000	257,819
Paid during the period/year	(269,502)	(9,500)
	-----	-----
Provisions as at the end of the period/year	415,872	664,374
	=====	=====

10 Trade and other payables

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
Client money	29,725,155	19,739,001
Other liabilities	1,050,941	401,687
Settlement due to Dubai Financial Market (“DFM”)	1,893,445	-
	-----	-----
	32,669,541	20,140,688
	=====	=====

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

11 Staff salaries and benefits

	31 March 2016 AED (Reviewed)	31 March 2015 AED (Reviewed)
Staff salaries	1,236,295	1,018,314
End of service benefits	21,000	21,000
	-----	-----
	1,257,295	1,039,314
	=====	=====

12 Administrative and general expenses

	31 March 2016 AED (Reviewed)	31 March 2015 AED (Reviewed)
Market expenses	125,333	109,611
Rent	29,954	27,533
Legal and professional expenses	1,577,648	108,500
Repair and maintenance	11,390	28,775
Printing and stationery	1,668	2,844
Depreciation expenses	124,147	201,872
Utilities	12,205	17,365
Communication expense	132,461	188,538
Bank charges	165,265	46,290
Other expenses	158,862	177,794
	-----	-----
	2,338,933	909,122
	=====	=====

13 Dividend declared

At the annual general meeting held on 21 April 2016, it was resolved to pay Nil dividend to the shareholders relating to the year ended 31 December 2015 (2015: AED 6.4 million relating to the year ended 31 December 2014). The Group has paid dividend of AED 6.1 million relating to the year ended 31 December 2014 and the remaining balance of AED 0.2 million is appearing in due to related parties as at 31 March 2016 (refer note 6).

As of 31 December 2014, the Group had a dividend payable of AED 290,000 to its shareholder. However, based on the mutual understanding between the parties, this liability has been reversed by the Company during the year ended 31 December 2015.

14 Directors' Fees

At the annual general meeting held on 21 April 2016, it was resolved to pay Nil directors' fees relating to the year ended 31 December 2015 (2015: AED 0.5 million relating to the year ended 31 December 2014).

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

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.

Al Safwa Islamic Financial Services (PrJSC)

Notes to the condensed consolidated interim financial information

15 Accounting estimates and judgments (*continued*)

a) Fair value hierarchy of assets measured at fair value

	Level 1 AED	Level 2 AED	Level 3 AED
31 March 2016 (Reviewed)			
Financial assets – Available-for-sale investments	724,845	-	3,923,864
Non financial assets - Investment properties	-	12,579,354	-
	=====	=====	=====
31 December 2015 (Audited)			
Financial assets - Available-for-sale investments	724,845	-	3,923,864
Non financial assets - Investment properties	-	12,311,394	-
	=====	=====	=====

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

16 Contingent liabilities and capital commitments

	31 March 2016 AED (Reviewed)	31 December 2015 AED (Audited)
Letters of guarantee (refer note 16.1)	50,000,000	50,000,000
Development expenditure on investment property (refer note 16.2)	960,236	1,228,196
	=====	=====

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”), for the Group’s fulfilment of obligations under the contract / agreement with DFM and ADX (*31 December 2015: AED 35,000,000 for DFM and AED 15,000,000 for ADX*). The guarantees are secured against the margin deposit of AED 30,000,000 (*31 December 2015: AED 30,000,000*) placed with an Islamic Bank.

16.2 The Group had 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 1.6 million as per the agreement (AED 0.3 million in 2016, AED 0.9 million in 2015 and AED 0.5 million in 2014).

17 Comparative figures

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