# 2016
# Annual Report

SHUAA

# Financial Highlights

(AED millions)

| Financial Highlights | FY2016 | FY2015 | FY2014 |
|---|---|---|---|
| Total revenues | 173.8 | 178.2 | 213.4 |
| Operating expenses | (167.4) | (164.3) | (165.1) |
| of which compensation & benefits | (83.6) | (82.7) | (101.5) |
| Provisions | (143.1) | (161.6) | (20.3) |
| Goodwill Impairment | - | (34.1) | - |
| Gain/(loss) from other investments | 4.2 | (8.4) | (2.2) |
| Net (Loss)/profit | (132.5) | (190.3) | 25.8 |
| | | | |
| Total assets | 1,300.5 | 1,600.1 | 1,606.3 |
| Cash and deposits with bank | 346.6 | 262.7 | 365.4 |
| Loans, advances and finance leases | 609.0 | 959.3 | 847.0 |
| of which SME Lending | 572.0 | 951.1 | 816.6 |
| of which margin lending | 37.0 | 8.2 | 19.6 |
| of which private equity | - | - | 10.8 |
| Total liabilities | 474.7 | 638.6 | 458.8 |
| Net debt to banks | 296.9 | 453.4 | 335.2 |
| Shareholders' equity | 825.8 | 961.4 | 1,147.3 |
| Total issued shares (in millions) | 1,065.0 | 1,065.0 | 1,065.0 |
| Net (Loss)/profit per share | AED (0.124) | AED (0.179) | AED 0.024 |
| Book value per share | 0.78 | 0.90 | AED 1.08 |

# SHUAA Overview

SHUAA Capital PSC ("SHUAA") is a UAE-based publicly-listed financial services institution offering a broad range of investment banking services including asset management, corporate finance advisory and capital markets services to individuals, institutions and governments. SHUAA also offers lending services to SMEs through its fully owned subsidiaries Gulf Finance UAE and Gulf Finance Saudi Arabia.

Founded in 1979, SHUAA is one of the oldest financial services firms in the GCC and has played a prominent role in shaping the financial services industry landscape in the region. Today, the Company has become an essential partner to its clients, delivering value-added advice, products and services. SHUAA continues to work towards fostering the growth of intra-regional economic and business development, with an emphasis on the UAE, where it is head quartered, and Saudi Arabia.

**Investment Banking** provides corporate finance advisory, equity and debt capital markets, M&A expertise, private placements, structured investments and other services. Its focus is on providing capital and financial advisory services to small to medium sized companies. SHUAA's Investment Banking team relies on its long-term regional presence and knowledge to provide these services.

**Capital Markets** provides sales and trading execution across regional and global equities and fixed income assets, including market making services, for SHUAA's institutional and high net worth client base. Through Capital Markets, clients also gain access to regional and global equities and fixed income, primary issues as well as OTC derivatives, and liquidity through an extensive network of local and international counterparties.

SHUAA's **Research** department produces sectoral and company-specific research on listed companies across the GCC region with emphasis on coverage of UAE and Saudi Arabian equities and trading opportunities.

**Asset Management** manages real estate, proprietary and third party funds as well as Discretionary Portfolios for institutions and high net worth clients. In Saudi Arabia, SHUAA Capital Saudi Arabia cjsc acts as a fund manager, investment manager and custodian for a number of funds, primarily focusing on the real estate and hospitality sectors in the Kingdom of Saudi Arabia and the United Arab Emirates.

**Lending** activities are conducted by Gulf Finance Corporation UAE and Gulf Finance Corporation Saudi Arabia, SHUAA's wholly owned lending subsidiaries. Gulf Finance UAE was founded in 1997 and provides funding solutions to small and medium sized enterprises (SMEs) in the UAE. It offers a broad range of financing products to companies primarily in the manufacturing, logistics, construction, retail, rental and leasing sectors.

Gulf Finance Corporation Saudi Arabia was launched in January 2013 as a Sharia compliant finance provider to SMEs in the Kingdom. The Company provides financial leverage to commercial entities operating in the manufacturing, trading, contracting, services and logistics sectors, and is headquartered in Jeddah.

**Corporate** manages future corporate development and controls all cash and shared service expenses related to the Group. All proprietary investments are managed within this business segment which also comprises strategy and business development, legal and compliance, finance, treasury, operations, risk management, investor relations, corporate communications, marketing, human resources and information technology.

# CONTENTS

# Chairman's Letter

*Dear Shareholders,*

*Welcome to the 2016 Annual Report of SHUAA Capital.*

*It gives me great pleasure to address you as Chairman of one of the region's most esteemed financial services companies.*

*My appointment towards the end of 2016 capped a year of transformation for SHUAA Capital, with the company optimising its operations and tightly controlling costs to generate efficiencies and create a strong and stable platform for growth in 2017 and beyond.*

*Following several challenging years, in 2016 the company was able to take advantage of its strong capital position to begin the process of unlocking new opportunities and re-establishing the brand.*

*As we make progress in this journey, our goal is to draw on SHUAA Capital's unrivalled expertise and experience to reach the forefront of financial services innovation. We also make a commitment to strive for the highest standards of transparency and governance in everything that we do.*

*Our strategic growth and development plan is focused on returning the company to the path of sustainable profitability.*

*The team is working steadfastly to identify potential bolt-on acquisitions that will support SHUAA Capital's long-term growth aspirations, including increasing our assets under management, while creating synergies across the organisation. Indeed, multiplying the cross selling of products and services is a strategic priority for the company moving forward.*

*Legacy investments that do not support our long-term strategy will be looked at and cleaned up, while the Gulf Finance Company model will revert to the more secure asset-backed lending approach.*

*Plans are in place to expand over geographical footprint in response to market need. The UAE will remain our key market but we see significant opportunities to grow the business in Saudi Arabia and Egypt over time.*

*We are both realistic and excited about the opportunities that lie ahead. We believe that over the next three to five years SHUAA Capital can maintain its leadership in the investment banking, advisory and asset management spaces, while emerging as a new regional leader in brokerage and market making. It is an ambitious but achievable goal.*

*With the necessary foundation blocks now in place, we look forward to building on the SHUAA Capital legacy over the coming years and securing its position as one of the region's pre-eminent investment banking and capital markets platforms.*

*Sincerely,*

***Jassim Alseddiqi***
*Chairman*

# Financial and Operating Review

# Financial and Operating Review

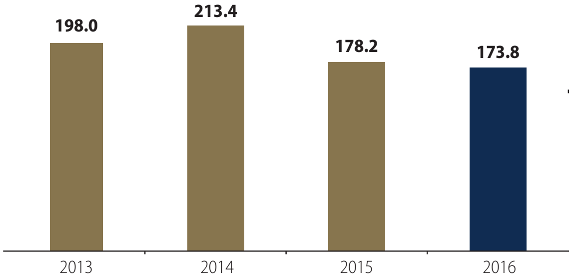
Revenues for the full year stood at AED 173.8 million (2015: AED 178.2 million), while overall Group losses reduced by a 30.4% to reach AED 132.5 million (2015: AED 190.3 million).

The Group's Asset Management division has had a strong year managing real estate funds and projects in Saudi Arabia and the United Arab Emirates, having reported a five-fold increase in profits. The Investment Banking division has also witnessed an active year advising on a series of mergers, acquisitions and general transactions for regional companies. And in December, the company carried out a strategic acquisition of a 14% stake in Bahrain's Khaleeji Commercial Bank.

Operating expenses remained stable at AED 167.4 million (2015: AED 164.3 million) while general and administrative expenses for the year were reduced by a further 2.9%, from AED 130.6 million to AED 126.8 million.

Incurred losses came predominantly from the Group's lending business Gulf Finance, whereby provisions of AED 150.1 million were set aside against bad loans for the full year 2016. The lending division registered AED 110.0 million in losses compared to AED 119.9 million in 2015. In spite of this, the business reported full year revenues of AED 130.1 million (2015: AED 159.7 million).

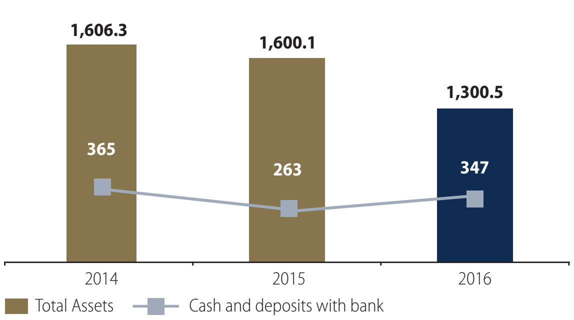
**SHUAA Group - Revenues**
*In AED millions*



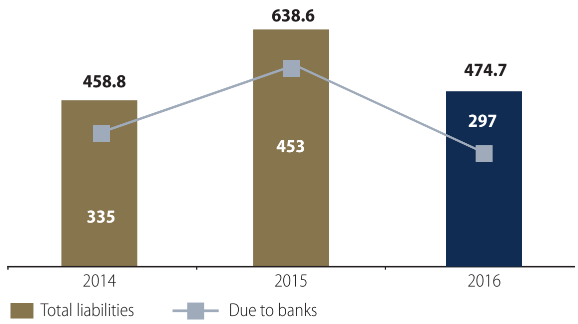
## Balance Sheet

SHUAA's balance sheet and total assets at year-end stands at AED 1.3 billion (2015: AED 1.6 billion). The Group's liquidity position is strong with AED 346.6 million in cash. Liabilities decreased to AED 474.7 million from AED 638.6 million in 2015. As of 31 December 2016, net assets stood at AED 825.8 million while the leverage ratio was 0.45 at year-end.

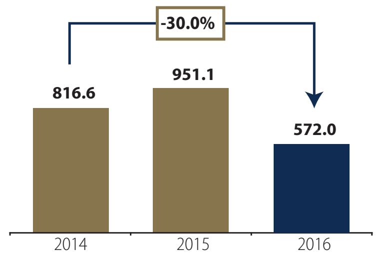
**SHUAA Group - Total Assets**
*In AED millions*




**SHUAA Group - Total Liabilities**
*In AED millions*

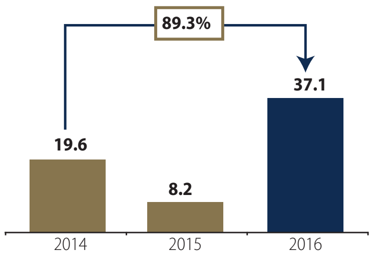



**Lending** (Gulf Finance UAE & Saudi Arabia)*
*In AED millions*



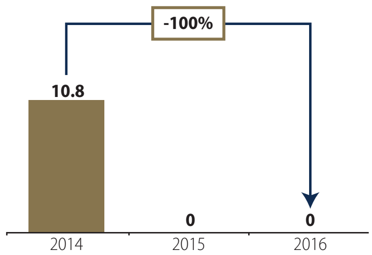

**SHUAA Capital Balance Sheet - Loans, advances and finance leases*

**Brokerage Margin Loans***
*In AED millions*



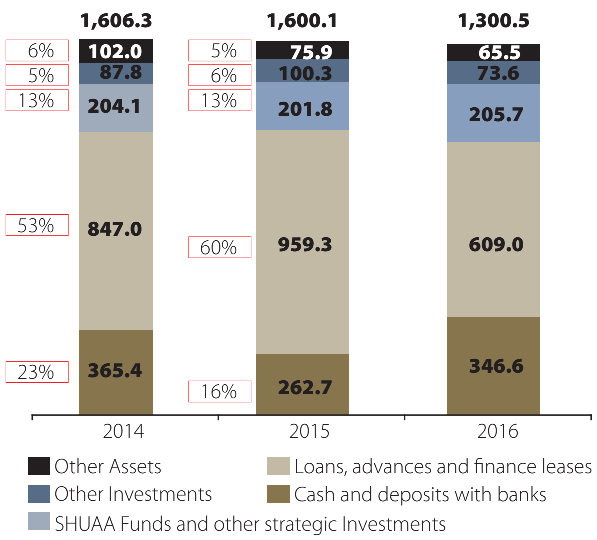

**SHUAA Capital Balance Sheet - Loans, advances and finance leases*

**Private Equity Funds Leverage***
*In AED millions*

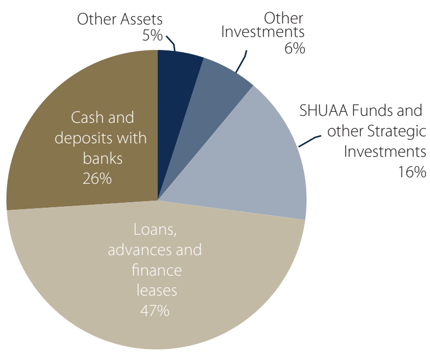



**SHUAA Capital Balance Sheet - Loans, advances and finance leases*

**Total Assets –Three Year Movement**
*In AED million*




**Balance Sheet Composition**
*As of 31 December 2016*



## Segmental Performance

The Asset Management business reported a 492% increase in full year profits to AED 8.3 million (2015: AED 1.4 million). Revenues were AED 27.4 million compared to AED 16.0 million in 2015. The division which manages real estate hospitality funds and projects in addition to a series of Discretionary Portfolio Management accounts delivered a solid set of results thanks to its active presence in both the Saudi and Emirati markets.

The Capital Markets division reported a 38.1% increase in revenues to AED 8.6 million (2015: AED 6.2 million), and a loss of AED 8.4 million (2015: AED 7.2 million).

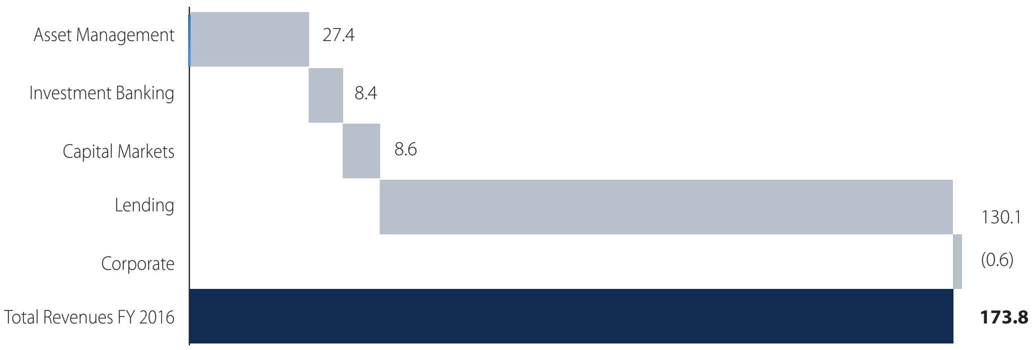
SHUAA's Investment Banking division reported full year profits of AED 1.9 million compared to a loss of AED 1.9 million in 2015. Revenues increased by 17.4% to AED 8.4 million (2015: AED 7.1 million).

The lending business comprising Gulf Finance UAE and Gulf Finance Saudi Arabia reduced its losses for the year to AED 110.0 million, from AED 119.9 million in 2015. Revenues for the lending business were 18.5% lower at AED 130.1 million (2015: AED 159.7 million).

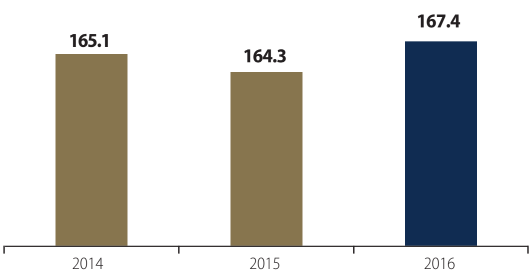
SHUAA's Corporate division which is the backbone of the client facing business divisions recorded revenues of AED 8.8 million (2015: AED 1.2 million), before losses on investments in SHUAA managed funds worth AED 9.5 million (2015: AED 12.0 million). General and Administrative expenses decreased to AED 33.0 million (2015: AED 34.6 million) as the company continues to consolidate and optimize back office operations. The division reported a reduction in full year losses to AED 24.3 million (2015: AED 62.6 million).

## 2016 Business Highlights

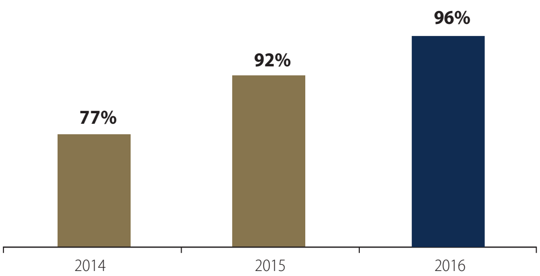
**FY 2016 - Segmental Revenue breakdown**
*in AED millions*




**Group Operating Expenses**
*In AED millions*




**Cost/Income Ratio**
*(Operating Expenses/Revenues)*



# Business Review

# Business Review

## Asset Management

2016 saw the launch of the Centro Shaheen by Rotana, a premium hotel in the Saudi city of Jeddah, as well as the announcement of the Cayan Cantara residential and commercial complex in Dubai, jointly with the Cayan Group and Rotana Hotel Management.

| Asset Management (AED `000) | 2016 | 2015 |
|---|---|---|
| Interest income | **1,316** | 389 |
| Net fees and commissions | **26,078** | 15,566 |
| Total revenues | **27,394** | 15,955 |
| General & administrative expenses | **(18,904)** | (14,420) |
| Depreciation | **(112)** | (128) |
| Provisions | **(49)** | - |
| Total expenses | **(19,065)** | (14,548) |
| Profit for the year | **8,329** | 1,407 |
| Attributable to: | | |
| Equity holders of the parent | **8,329** | 1,407 |
| Non-controlling interests | **-** | - |

## Capital Markets

The division significantly expanded the team's capabilities during the course of the year including a series of senior appointments in support of long term business objectives within the equities, credit and research teams. Key highlights by the team included SHUAA being the founding market maker for Nasdaq Dubai's single stock Futures Market, and the Equity Research team expanding its coverage of various sectors and industries across the Gulf region.

| Capital Markets (AED `000) | 2016 | 2015 |
|---|---|---|
| Interest income | **817** | 641 |
| Net fees and commissions | **6,189** | 5,572 |
| Trading income/(loss) | **1,555** | (15) |
| Total revenues | **8,561** | 6.198 |
| General & administrative expenses | **(15,021)** | (11,658) |
| Depreciation | **(2,126)** | (2,024) |
| Provisions | **201** | 249 |
| Total expenses | **(16,946)** | (13,433) |
| Loss for the year | **(8,385)** | (7,235) |
| Attributable to: | | |
| Equity holders of the parent | **(8,384)** | (7,232) |
| Non-controlling interests | **(1)** | (3) |

## Investment Banking

During the year, the Investment Banking division worked on a number of Merger and Acquisition and other general advisory transactions, including (among others) acting as an advisor to Emirates National Group on a strategic acquisition of a stake in Misr Bus, advising Amanat on the acquisition of a stake in Madaares, and advising Al Laith Group Investments on a strategic sale. The division continues to work on a number of M&A advisory and capital markets transactions for GCC based clients across a number of sectors. The Investment Banking team also maintains a strategic Memorandum of Understanding with Dubai SME, providing valuation advisory support to SME100 companies.

| Investment Banking (AED `000) | 2016 | 2015 |
|---|---|---|
| Net fees and commissions | **8,387** | 7,145 |
| Total revenues | **8,387** | 7,145 |
| General & administrative expenses | **(6,501)** | (8,991) |
| Provisions | **-** | (85) |
| Total expenses | **(6,501)** | (9,076) |
| Profit/(loss) for the year | **1,886** | (1,931) |
| Attributable to: | | |
| Equity holders of the parent | **1,886** | (1,931) |
| Non-controlling interests | **-** | - |

## M&A and Corporate Finance Advisory

*Sell-Side Advisor to*
**CONFIDENTIAL**
*Advised a UAE-based specialty clinic on the strategic sale to a leading GCC-based medical group*
**Undisclosed Value**
**Sole Financial Advisor**
SHUAA
October 2016

*Sell-Side Advisor to*
**Al Laith Group Investments LLC**
*on the strategic sale to* ***Prommac Holdings Limited***
**Undisclosed Value**
**Lead Financial Advisor**
SHUAA
August 2016

**Chevron AlKhalij**
*(a branch of Chevron Asia Pacific Holdings Limited)*
*In connection with general corporate finance advisory services*
**Financial Advisor**
SHUAA
June 2016

*Buy-Side Advisor to*
**Amanat Holdings PJSC**
*on the acquisition of a minority stake in*
**AED 139,400,000**
**Sole Financial Advisor**
SHUAA
March 2016

**Gulf Navigation Holding PJSC**
*in connection with the balance sheet restructuring and debt advisory services*
**Sole Lead Manager & Financial Advisor**
SHUAA
February 2016

*Buy-Side Advisor to*
**Emirates National Group LLC**
*on its cross border strategic acquisition of* ***Egyptian Advanced Company for Public Transportation (S.A.E.)***
**Undisclosed value**
**Sole Financial Advisor**
SHUAA
January 2016

## Business Valuations & Fairness Opinions

***Index Holding FZ – LLC***
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
December 2016

***AKM Food Stuff Group***
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
November 2016

***Future Link - GreenParking***
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
October 2016

***Bin Touq Transport LLC***
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
*September 2016*

***Bin Touq Fire & Safety LLC***
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
*September 2016*

***Nets International Limited***
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
August 2016

**MASSAED Installation of Elevators and Escalators**
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
August 2016

**InfoTouch FZ - LLC**
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
July 2016

***Potentiel Nursery***
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
July 2016

**ENSPA Limited**
*(Member of the SME 100 Program)*
**Valuation Assessment**
SHUAA
June 2016

## Lending

Gulf Finance remains committed to servicing the SME sector and maintains exposure to sectors such as manufacturing, trade, rental and leasing, healthcare, transport and logistics. The Gulf Finance model will now be focused on asset-backed lending one, to guide growth and development. Demand for SME financing products in the UAE remains robust, and the business will continue to closely monitor developments in the SME sector and adjust its growth strategy thereafter. Gulf Finance Saudi Arabia, which offers Sharia compliant financing solutions to SMEs in the Kingdom, has continued to experience stability fuelled by healthy demand from the Saudi SME market.

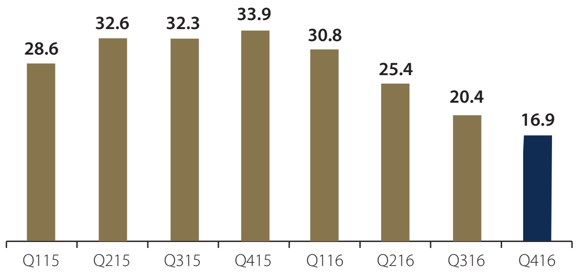
**Loan Portfolio**

*(end 2016)*

| | |
|---|---|
| Manufacturing | **17.1%** |
| Wholesale Trade | **13.1%** |
| Transportation and Warehousing | **25.6%** |
| Construction | **16.4%** |
| Retail Trade | **5.0%** |
| Real Estate, Rental and Leasing | **7.2%** |
| Professional, Scientific and Technical Services | **3.1%** |
| Administrative and Support Services | **3.0%** |
| Other | **9.5%** |

**Net Interest Income**

*(AED '000)*




**Lending (AED `000)**

| | **2016** | 2015 |
|---|---|---|
| Interest income | **122,385** | 152,315 |
| Net fees and commissions | **7,728** | 7,411 |
| Total revenues | **130,113** | 159,726 |
| General & administrative expenses | **(53,356)** | (60,982) |
| Interest expenses | **(28,945)** | (24,963) |
| Depreciation | **(7,715)** | (4,950) |
| Provisions | **(150,102)** | (154,643) |
| Goodwill Impairment | **-** | (34,111) |
| Total expenses | **(240,118)** | (279,649) |
| Loss for the year | **(110,005)** | (119,923) |
| Attributable to: | | |
| Equity holders of the parent | **(110,005)** | (119,923) |
| Non-controlling interests | **-** | - |

## Corporate

**Corporate (AED `000)**

| | 2016 | 2015 |
|---|---|---|
| Interest income | **8,382** | 1,101 |
| Net fees and commissions | **398** | 49 |
| Trading income | **31** | - |
| Losses from investments in SHUAA managed funds | **(9,459)** | (12,007) |
| Total revenues | **(648)** | (10,857) |
| General & administrative expenses | **(33,043)** | (34,592) |
| Interest expenses | **(31)** | - |
| Depreciation | **(1,610)** | (1,626) |
| Provisions | **6,882** | (7,119) |
| Total expenses | **(27,802)** | (43,337) |
| Net loss before gains/(losses) from other investments | **(28,450)** | (54,194) |
| Gains/(losses) from other investments | **4,167** | (8,383) |
| Loss for the year | **(24,283)** | (62,577) |
| Attributable to: | | |
| Equity holders of the parent | **(24,283)** | (62,577) |
| Non-controlling interests | **-** | - |

# Leadership and Governance

# Corporate Governance Report

Good corporate governance is a value that SHUAA strongly believes in and has embraced over the past several years to provide a solid foundation for achieving its vision and raising corporate performance. Good Governance is important in promoting and strengthening the trust of the Company's shareholders, stakeholders and the public. In that respect, the Board is committed to uphold corporate governance best practices within SHUAA to enhance shareholder value, engender support for and trust in its activities as a financial investment company and recipient of shareholders' capital, and to enable it to contribute to the successful development of the financial system of the United Arab Emirates and the wider Middle East region.

SHUAA operates across a multitude of jurisdictions and is regulated by a number of different regulators. The Board is committed to compliance with corporate governance guidelines issued by the regulatory bodies that govern its operations as a publicly listed investment company, to meeting the requirements of all our regulators, and to the implementation of such higher standards as are appropriate to the conduct of its business.
SHUAA's Corporate Governance Framework is designed to ensure that the following standards are met:

- **Accountability:** SHUAA Capital's executive management is set strategic targets and is accountable to the Board. In turn, the Board is accountable to the shareholders and other stakeholders;
- **Responsibility:** The clear separation and delegation of authority;
- **Transparency and disclosure:** Stakeholders have access to financial records and other relevant information to assess the company's financial performance and situation;
- **Fair treatment:** All stakeholders are treated in an independent, objective, equal and unbiased manner applying the highest standards in the industry.

### Overview of the Corporate Governance Framework

SHUAA's Corporate Governance Framework ("Framework") plays an important role in helping its Board gain a better understanding of its oversight function and the roles of the Board and management. The Framework sets out, in the Board's Terms of Reference, the detailed duties of the Board as well as the requirements in relation to Board appointment and composition, meetings, voting procedures and internal control systems.

### Code of Conduct and Board Personal Account Dealing Policy

SHUAA Capital has developed a Code of Conduct and a personal account dealing policy, the terms of which are applicable to all employees, officers and Directors of the company. The policy takes into account the relevant UAE laws and regulations governing insider trading, clients' interest and other standards. The policy is enforced by the Compliance Department within the company and all relevant records are maintained for a period of ten years.

# Board of Directors

## Board Composition

To review the financial performance and progress of the company's strategy, the Board of Directors met 5 times during 2016 on the following dates: 11 February, 24 March, 12 May, 13 August and 10 November 2016. The table below lays out the Board members, nature of membership, Board committee memberships and attendance record during the year.

| Name of Director | Position | Nature of Membership | Committee Membership | Board Meetings Attendance | Date of Appointment/ Election | Date of Resignation |
|---|---|---|---|---|---|---|
| **Abdulrahman Rashed Al Hareb** | Chairman | Non-Executive, Non-Independent | None | 4 | 12/2/2015 | As Chairman on 20/11/2016; As Director on 28/11/2016 |
| **Hamad Al Sagar** | Vice Chairman | Non-Executive, Independent | None | 4 | 4/9/2000 | |
| **Fahd Al Jouaan** | Director | Non-Executive, Independent | Audit & Risk Committee, Nomination & Remuneration | 5 | 4/9/2000 | |
| **Martin D. Angle** | Director | Non-Executive, Independent | Audit & Risk Committee, Nomination & Remuneration Committee | 1 | 23/8/2009 | 16/03/2016 |
| **Jamal Bin Ghalaita** | Director | Non-Executive, Independent | Nomination & Remuneration Committee | 4 | 7/2/2011 | 28/11/2016 |
| **Ibrahim Al Mansoori** | Director | Non-Executive, Independent | Audit and Risk Committee | 5 | 23/03/2015 | 17/11/2016 |
| **Jassim Alseddiqi** | Chairman and Director | Non-Executive, Non-Independent | Nomination & Remuneration Committee | - | 20/11/2016 | |
| **Ahmed Binbraik** | Director | Non-Executive, Independent | Audit & Risk Committee; Nomination & Remuneration Committee | - | 19/12/2016 | |
| **Jasim Al Ali** | Director | Non-Executive, Independent | Audit & Risk Committee; Nomination & Remuneration | - | 19/12/ 2016 | |

A number of management committees are also in place in addition to the Board Committees which are established to ensure oversight of daily operations and business activities and adherence to proper governance standards. The committees are the Assets & Liabilities Committee, the Audit & Compliance Committee, the Operating Committee, and the Human Resources Committee.

# Profile of the Board of Directors

## Jassim Alseddiqi

Chairman since 20 November 2016

Mr. Jassim Alseddiqi is the Chairman of the Board of Directors of SHUAA Capital psc. He is also the Managing Director and Chief Executive Officer of Abu Dhabi Financial Group, the new majority shareholder in SHUAA.

Mr. Alseddiqi is also the Chairman of Eshraq Properties Co PJSC, as well as being a Board Member at First Gulf Bank, GFH Financial Group, Tourism and Development Investment Company, Qannas Investments Limited and Abu Dhabi Capital Group.

Previously, he was the CEO of Abu Dhabi Capital Group. Preceding his tenure in the investment world, he was a noted lecturer at the Abu Dhabi-based Petroleum Institute.

Mr. Alseddiqi holds a Bachelor of Science in Electrical Engineering from the University of Wisconsin- Madison, and earned his Masters of Science degree in Electrical Engineering from Cornell University in the United States. He also has several publications in international engineering journals.

## Hamad Abdulaziz Al Sagar

Vice Chairman

Hamad Al Sagar is the Managing Partner of A.H. Al Sagar & Bros., a family-owned business in Kuwait, with activities including trading, civil engineering, electrical & mechanical contracting. Mr. Al Sagar serves on the Board of Directors of SHUAA Capital psc, National Bank of Kuwait S.A.K, and Al Kout Industrial Projects Co. Mr. Al Sagar served as a board member of National Bank of Ras Al Khaimah for several years until December 2015. He also served a term of four years as a member of the Municipality of Kuwait, one term of four years as a member of Kuwait Planning Board and was also on the board of the Kuwait Investment Authority for four years.

## Ahmed Binbraik

Director

A prominent UAE national banker, Mr. Ahmed Bin Braik ranks amongst the senior most finance professionals in the GCC and MENA region. Mr. Bin Braik initially joined Citibank N.A. in 1981 as an Account Officer – Relationship Management. Having held key roles such as Corporate Baking Head and Private Banking Group Head, to then become Business Manager UAE and Gulf, Mr. Bin Braik went on to lead Citibank N.A. UAE and Oman as CEO for 12 years. He established a diversified business in Commercial and Retail Banking to become today a premier institution in the UAE and the first in many areas including leadership in credit cards and winning of Dubai Quality Awards. During his tenure, Citibank N.A. registered an explosive growth in profits from a loss of AED 1 million in 1990, to touch a record AED 150 million.

Most recently, Mr. Bin Braik held senior positions within Majid Al Futtaim Holding (MAF) where he worked for nearly 10 years, retiring as the Deputy CEO of the Group Holding Company and a member of the Holding Board. Mr. Bin Braik was instrumental in shaping the overall strategy of the business, negotiating key joint ventures and making acquisitions for the Group including the successful signing of the JV Agreement with Orix and JCB International to issue credit cards. During his tenure at MAF, Mr. Bin Braik has held various key roles including the Chairman of MAF Ventures, Deputy Chairman of MAF Properties, Board Member of MAF Retail, MAF Trust, CEO of MAF Ventures and Acting CEO of MAF Properties.

Prior to joining MAF, Mr. Bin Braik had served as founder CEO of Dubai Bank, the first UAE Bank to be successfully launched in a record time of 4 months, thus creating a new benchmark in delivery cycles as well as sheer innovation in new products and services. In addition, he was also Founder Board member of the Dubai International Financial Centre and Dubai Economic Council, as well as a board member of Bank Islam Malaysia, MasterCard Middle East and Emirates Institute for Banking and Financial Studies.

A seasoned industry veteran, Mr. Bin Braik currently holds directorships at Al Masraf Bank UAE, Dubai Economic Council and British Telecom Saudia.

A member of the Association of Accounting Technicians, Mr. Bin Braik is a graduate of Leeds University, UK.

## Jasim Al Ali

Director

Mr. Jasim Al Ali holds the positions of Chief Executive Officer of First Gulf Properties LLC. & Mismak Properties LLC., possessing extensive experience in asset management and a passion for service excellence and outstanding strategic thinking. Mr. Al Ali joined these companies to achieve their vision of establishing themselves as leading entities offering exceptionally high caliber services in professional real estate solutions.

Mr. Al Ali is also the Chairman of both Green Emirates Properties PSC., and Sensaire Services LLC., as well as being a Board Member at Aseel Finance and Dubai First.

Prior to joining First Gulf Bank PJSC as a Head of Real Estate, Mr. Al Ali held many prominent positions where he worked at DP World and played a key role within Dubai Properties Group's leadership team, as evident from his positions in its entities where he was Vice President for Dubai Asset Management in 2010 and Executive Director of Salwan from year 2008-2010.

Mr. Al Ali completed his education in prominent institutions in US and UK, and has attained an MBA from the University of Leicester, UK.

## Abdulrahman Hareb Rashed Al Hareb

Chairman until 20 November 2016

Mr. Abdulrahman Hareb Rashed Al Hareb is the Chief Internal Audit Officer at Dubai Holding, a global investment group. In his role at Dubai Holding, Mr. Al Hareb is responsible for managing, planning and supervising the annual Dubai Holding Audit, overall risk assessment, and internal control structure and corporate governance evaluation. Al Hareb also oversees the auditing of all Dubai Holding subsidiaries.

In addition to his responsibilities at Dubai Holding, Mr. Al Hareb is also the Chairman of Board of TAIB Bank, and Chairman of Dubai AeroSpace Enterprise Audit Committee. He is also a Chairman of board member of Emaar Properties, Emaar Malls and Awqaf & Minors Affairs Foundation.

Mr. Al Hareb has over twenty years of experience in audit, risk management and banking. Prior to joining Dubai Holding, Mr. Al Hareb has held various senior positions in National Bank of Dubai and Financial Audit Department. Most recently, Mr. Al Hareb has been the Chairman of Board at Oman National Investment Corporation Holding, as well as a board member of StandardAero US. In the past, Mr. Al Hareb was the Vice President - Internal Audit at Dubai Islamic Bank.

Mr. Al Hareb is a U.A.E. national and holds an MBA from Hult International Business School, a Bachelor degree in Business Administration- Accounting from Seattle University, United States. He is a Certified Public Accountant (CPA), and a Certified Internal Auditor (CIA).

## Jamal Bin Ghalaita

Director

Mr. Ghalaita, a U.A.E. national, is a veteran Banker and well established Business Leader. His career as a banker spans over 25 years, with key roles in the corporate, retail, trade finance and human resources sectors at Emirates Islamic and Emirates NBD Group. His significant achievements include the planning for the launch of Emirates Islamic and the establishment of several new areas of business at Emirates NBD, including Private Banking, Asset Management and Emirates Money. In addition, he is credited with overseeing the growth of the Consumer Banking and Wealth Management business. He now serves as the Chief Executive Officer of Emirates Islamic Bank, a position he moved into in October 2011, from his previous post as Group Deputy Chief Executive Officer and General Manager, Consumer Banking and Wealth Management at Emirates NBD.

Since his appointment, he has driven unprecedented growth at Emirates Islamic, marking the bank as the fastest growing in the country over the past few years. His focused approach has been recognized and acknowledged across the industry through multiple awards both locally and internationally, including the recognition of Emirates Islamic as the "Best Islamic Bank" in the U.A.E.

Mr. Ghalaita also serves as the Chairman of Emirates Islamic Financial Brokerage LLC and is a Board Member of Al Baraka Banking Group, Tanfeeth LLC and SHUAA Capital PSC.

## Fahad Al Jouaan

Director

Mr. Fahad Al Jouaan serves on the boards of various organizations including: Al Kout Industrial Projects Company. where he is Chairman, Markaz (Kuwait Financial Centre), NAPESCO (National Petroleum Services Co.) and the Kuwait Chamber of Commerce. In addition, he is actively involved in Al Jouaan Trading and Contracting Co. which is a private investment company managed by his family and is the owner of a private company named Kuwait Projects Group, involved in private investment in local and regional markets. Mr Al Jouaan graduated from Eastern Washington University with a Bachelor of Arts in Business Administration.

## Ibrahim Ahmed Al Mansoori

Director

Mr. Ibrahim Al Mansoori is the Chief Operating Officer of Khalifa Fund for Enterprise Development, the Government entity established in 2007 to foster entrepreneurship and develop thriving and competitive SMEs in the UAE.

Mr. Al Mansoori has been key member in the success of Khalifa Fund. He has been involved actively in developing financial products, setting up processes, structures and relationships with other entities, both locally and internationally. Khalifa Fund has been established to mandate the development of Entrepreneurship and to improve the competition among SMEs within the UAE by providing a various services.

Mr. Al Mansoori is the also the Chairman of the board of director of Sougha Establishment; a social enterprise fully owned by Khalifa Fund for enterprise Development aimed at creating market links that improve the sustainability of Emirati micro-businesses, the preservation of heritage and socio-economic development in opportunity scares region of the UAE.

Mr. Al Mansoori has vast experience in various domains, such as manufacturing, Investment, Utilities, Financial & Audit Institutions as well as Telecommunication.

An eminent UAE citizen, Mr. Al Mansoori has previously held different senior positions at various organizations in the UAE.

Mr. Al Mansoori graduated with a Bachelor degree in Accountancy from the United Arab Emirates University. In addition he has professional qualifications of Certified Public Accountant (CPA), Certified Fraud Examiner (CFE) and a Certified Business Manager (CBM) from USA. In July 2015 Mr. Ibrahim graduated with Master's Degree in Strategic & Security Studies from the UAE National Defense College.

## Martin D. Angle

Director

Mr. Angle is currently the Senior Independent Director of Savills plc, a leading international property adviser, a Non-Executive Director of Pennon Group plc and SHUAA Capital, and Vice Chairman of the FIA Foundation. During the year he was also a Non-Executive Director of Severstal, one of the world's largest steel producers, and was Chairman of the National Exhibition Group in the United Kingdom.

During his earlier career, Mr. Angle held senior positions in investment banking with SG Warburg & Co, Morgan Stanley where he was head of UK M&A, and Dresdner Kleinwort Benson, where he was a Group Director and President of Investment Banking in the United States.

Mr. Angle was subsequently the Group Finance Director of TI Group, a FTSE-100 UK engineering company with operations in over 50 countries, following which he became a Managing Director of Terra Firma Capital Partners, the private equity group, where he held various senior roles in its portfolio companies including WRG, a leading UK waste management and energy recovery company where he was Executive Chairman, and Le Méridien Hotel Group, where he was Executive Deputy Chairman.

Mr. Angle is a graduate in physics, a Chartered Accountant, and a Member of the Chartered Securities Institute in the United Kingdom.

## Other Board Directorships

| Director | Other Directorships in UAE Shareholding Companies |
|---|---|
| **Abdulrahman Al Hareb** | Emaar Properties, Emaar Malls, Gulf Finance Company (Chairman) |
| **Hamad Al Sagar** | National Bank of Ras Al Khaimah |
| **Fahd Al Jouaan** | - |
| **Jamal Bin Ghalita** | - |
| **Martin D. Angle** | - |
| **Ibrahim Al Mansoori** | Abu Dhabi Distribution Company |
| **Jassim Alseddiqi** | Managing Director of Abu Dhabi Financial Group Chairman of Eshraq Properties Co. PJSC Director at First Gulf Bank, GFH Financial Group, Tourism and Development Investment Co, Qannas Investment Ltd, and Abu Dhabi Capital Group |
| **Ahmed Binbraik** | Director at Al Masraf Bank UAE, Dubai Economic Council and British Telecom Saudia |
| **Jasim Al Ali** | Chairman of both Green Emirates Properties PSC., and Sensaire Services LLC. Director at Aseel Finance and Dubai First |

### Board Remuneration

In accordance with the UAE Commercial Companies Law, remuneration of the Board of Directors of SHUAA Capital is made in line with the UAE Commercial Companies Law which represents a percentage proportion of the net profits not to exceed 10% of the annual net profits of the company (after deduction of the statutory and other reserves and the distribution of dividends representing 5% of net profits to shareholders). Further, the company has adopted a policy to pay Directors an annual on-board fee.

Board remuneration must be approved at the Annual General Assembly of the company and during 2016, the Board Directors did not receive any remuneration for their services.

### Board Meetings and Committees

The following committees have been established by the Board:

### Audit & Risk Committee

The main duties of the Audit & Risk Committee of the Board ("ARCB") is to monitor the company's financial statements, to define, review, monitor and recommend changes to the company's financial and risk control systems within the corporate strategy, and to maintain the relationship and be the direct point of contact with the company's external auditors.

### Nomination & Remuneration Committee

The main duties of the Nomination and Remuneration Committee ("NRCB") is to determine the company's staffing needs at the executive and employee levels, the basis for selection of executives and employees, to develop and annually review the human resources and training policies of the company, to oversee the procedures for nomination to the Board, and to regularly review the structure, size and composition of the Board, to develop and review annually the ongoing suitability of the Company's policy for remuneration and benefits for the company's General Manager, Board of Directors and employees and to ensure that the remuneration and benefits awarded are reasonable and aligned with the performance of the company.

The table below lays out the number of Board Committee meetings held during 2016, Board Committee memberships, nature of membership, and attendance record during the year:

| Committee | Name of Member | Designation | Nature of Membership | Meeting Attendance |
|---|---|---|---|---|
| **Audit & Risk Committee of the Board ("ARCB")** | Martin D. Angle | Chairman | Non-Executive, Independent | 1 |
| | Fahd Al Jouaan | Member | Non-Executive, Independent | 4 |
| | Ibrahim Al Mansoori** | Member | Non-Executive, Independent | 3 |
| **Nomination & Remuneration Committee of the Board ("NRCB")** | Fahd Al Jouaan*** | Chairman | Non-Executive, Independent | 1 |
| | Jamal Bin Ghalita | Member | Non-Executive, Independent | 2 |
| | Martin D. Angle* | Member | Non-Executive, Independent | 1 |
| | Abdulrahman AlHareb**** | Chairman | Non-Executive, Independent | 2 |
| | Ibrahim Al Mansoori ** | Member | Non-Executive, Independent | 2 |

* *Until 16 March 2016 when he resigned*
** *From 24 March 2016 (replaced Martin Angle)*
*** *Until 24 March 2016*
**** *From 24 March 2016*

## Delegation of Authority and Powers to Executive Management

The responsibilities of the Board and Executive Management differ where the Board sets the framework for executive management, who in turn, is responsible for the day-to-day operation of the company. The Board sets the Company's vision and strategic goals and objective and provides oversight of the management of the company and holds it accountable. The senior executive management act within the delegation of authorities and limits set to them by the Board.

In line with the Company Law provisions and the Securities and Commodities Authority guidelines, the Board as a whole, and the non-executive directors in particular, are not involved in the day-to-day business activities. Specific responsibilities have been delegated to the various management committees as outlined in the Company's Corporate Governance Framework.

## Accountability

Governance constitutes the entire accountability framework of the organization. SHUAA has established a set of internal policies and procedures which form the basis of an entire accountability framework for the organization. These include, but are not limited to Compliance, Risk, Human Resources and Finance policies and the Corporate Governance Framework. Both the Board and all employees of the Group are required to comply with the policies as applicable to their specific role and function.

The Corporate Secretary periodically undertakes a review of the Framework and amends it as may be necessary to meet the changing needs and expectations of the Group and its stakeholders.

## External Auditor

Deloitte & Touche (M.E.) has been the Company's external auditors since 2011. Their appointment for the fiscal year ending 31 December 2016 was recommended by the Board of Directors at the meeting held on 11 February 2016 and endorsed by the General Assembly meeting held on 16 March 2016. Deloitte's fees were set at AED 320,000 to undertake the statutory audit and review of the quarterly financial statements of the Company. Deloitte & Touche did not provide any other services to the SHUAA Group during the 2016 financial year other than acting as the external Auditor for the Group and providing IFRS-9 gap and impact analysis study.

## Internal Auditor

In May 2013, SHUAA Capital engaged KPMG Lower Gulf Ltd as the Company's internal auditors to undertake the internal audit function for the Group. A risk-based internal audit plan was developed for 2016-2017 against fees of AED 423,000 respectively. KPMG's mandate included conducting internal audit reviews for select processes and functions, and quarterly follow-up reviews of management action plans as agreed for all functions / processes.

Upon completing the internal audit reviews, reports are issued to the process owners/SHUAA's Management, findings are discussed with the concerned team and action plans are agreed. Final reports are issued to the process owners/SHUAA's Management and the Audit and Risk Committee of the Board ("ARCB") and quarterly updates are provided by the KPMG team to the ARCB.

## Related Party Transactions

As per the Emirates Securities and Commodities Authority definition, Related Parties are defined as the entities that are related together by virtue of a shareholding percentage (holding companies, subsidiaries and associates) as well as the Directors and key management personnel. Further, Federal Law No. (2) for 2015 governing commercial companies defines Related Parties as the companies in which the Chairman and other Directors and the senior executive management of the company holds at least 30% of their share capital and subsidiary, associated or sister companies.

The related parties and the personnel of the company shall not utilize the information in their possession due to its membership or occupation to achieve any interest whatsoever as a result of dealing in the securities of the company and any other transactions. Such party or employee may not have a direct or indirect interest with any party making deals intended to influence the rates of the securities issued by the company.

The company may not undertake transactions with the related parties in excess of 5% of the share capital of the company or AED ten million, whichever is less, without the consent of the General Assembly of the company.

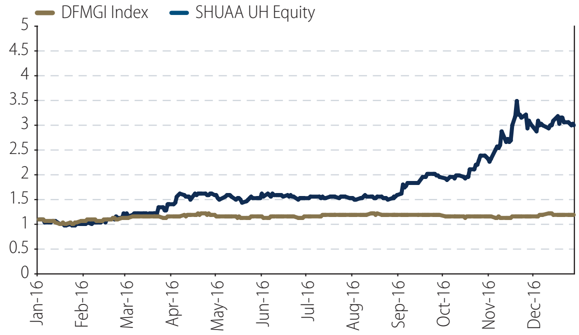
The Chairman and the other Directors may not, without the consent of the General Assembly of the company, which consent shall be renewed every year, participate in any business in competition with the company or trade for his own account or for the account of third parties in any branch of the activity conducted by the company, otherwise the company may demand him to pay compensation or to consider the profitable transactions made for his account as if it were made for the account of the company.

## General Information

The table below sets out the price of the stock (closing, highest, lowest) during each month in 2016.

| Month | Closing Price | High | Low |
|---|---|---|---|
| Jan | 0.351 | 0.41 | 0.305 |
| Feb | 0.47 | 0.48 | 0.34 |
| Mar | 0.579 | 0.62 | 0.425 |
| Apr | 0.69 | 0.731 | 0.568 |
| May | 0.649 | 0.691 | 0.58 |
| Jun | 0.647 | 0.706 | 0.601 |
| Jul | 0.64 | 0.672 | 0.639 |
| Aug | 0.652 | 0.675 | 0.623 |
| Sep | 0.888 | 0.945 | 0.65 |
| Oct | 1.11 | 1.14 | 0.84 |
| Nov | 1.5 | 1.82 | 1.05 |
| Dec | 1.48 | 1.6 | 1.39 |

The chart below provides the comparative analysis with the market index and the sector one




The table below provides the shareholding structure as of 31/12/2016 (individuals, companies, governments) with breakdown of nationals, GCC, Arabs and Foreigners

| Investor Type | Qty | %Qty |
|---|---|---|
| Individuals | 296,550,380 | 27.8 |
| Companies | 753,793,717 | 70.8 |
| Governments | 14,655,903 | 1.4 |
| Grand Total | 1,065,000,000 | 100.00 |

| COUNTRY | Qty. | %Qty |
|---|---|---|
| UAE | 799,337,767 | 75.1 |
| GCC | 125,678,665 | 11.8 |
| ARAB | 70,475,281 | 6.6 |
| FOREIGN | 69,508,287 | 6.5 |
| Grand Total | 1,065,000,000 | 100.00 |

As of 31/12/2016, the following shareholders were holding more than 5% of the share capital of the company:

| Name | Qty. | %Qty |
|---|---|---|
| Shine Investments in Commercial Projects LLC | 515,000,000 | 48.36% |

## SHUAA Executive Leadership

**Houssem Ben Haj Amor**
General Manager

Mr. Houssem Ben Haj Amor joined SHUAA Capital in 2007, and is currently the Group General Manager. Before taking the helm in 2014, he held the positions of Chief Financial Officer and Chief Operating Officer.

His primary mandate as General Manager was to implement a Group-wide transition strategy aimed at reinforcing the firm's foundations, and position it well for the next stage in its evolution. Under his guidance, operational efficiencies were optimized across all business lines.

Previously, Mr. Haj Amor headed Société Générale's Accounting department in Tunisia, where he was responsible for rolling-out a comprehensive new banking system. He also bears extensive knowledge of, and experience in international Financial Reporting and GCC regulatory standards and requirements, having held senior positions with the likes of Moore Stephens and Arthur Andersen, and managing audit and consultancy missions in Europe and North Africa.

Mr. Haj Amor sits as Director on the Boards of SHUAA Capital Saudi Arabia cjsc, Gulf Finance UAE pjsc and Gulf Finance Saudi Arabia cjsc. He is also Chairman of SHUAA Securities LLC, and holds the positions of Director at SHUAA Securities Holding Ltd., and Director at SHUAA Asset Management Ltd. He is a Certified Public Accountant.

**Omar Al Jaroudi**
Chief Executive Officer, Saudi Arabia

Omar Al Jaroudi, a Saudi national, comes with over 27 years of diversified experience in the fields of commercial and investment banking. He started his career in 1984 with the Saudi French Bank initially in commercial banking and later moved to investment banking.

In 1995, he moved on to help setting up Lebanon Invest, an investment bank which was merged in the year 2000 with Banque Audi SAL after which Mr. Al Jaroudi joined SHUAA Capital in March 2007. During this period, he amassed vast and diversified experience, both in the region as well as in Europe, in the areas of investment banking, private equity, asset management, local and regional brokerage, and distribution. He also serves on the board of several companies both in the Middle East and Europe.

Mr. Al Jaroudi holds a Master's Degree in Economics from Syracuse University in New York and a Bachelor's Degree in Business Administration from the American University of Beirut.

**Ross Abbott**
Managing Director - Head of Capital Markets

Mr. Abbott spearheads the transformation of SHUAA's Capital Markets division, he joined SHUAA in January 2016 and brings over 25 years of financial experience in emerging and frontier markets.

Based in Dubai for the last nine years, he was previously Managing Director – Head of Trading at Emirates NBD, and more recently Ross was Managing Director, Co-Head of Cash Equities at Arqaam Capital.

He has also previously worked in London and Johannesburg for Citi Bank, ABN Amro and UBS.

## SHUAA Executive Leadership

**Rania Fathallah**
Managing Director, Head of Corporate Finance

Rania Fathallah is a Managing Director in Investment Banking and Head of Corporate Finance at SHUAA Capital responsible for deal origination and execution. Rania has held a number of positions in the Investment Banking department since joining SHUAA in 2007. She has led and participated in several investment banking transactions including the IPOs DP World, Emirates REIT, Dubai Parks & Resorts, and has successfully worked on a number of M&A mandates.

Prior to joining SHUAA, Rania was the Head of Corporate Finance at NASDAQ Dubai, responsible for attracting and facilitating equity listings. Rania began her career in banking, gaining experience as a Senior Research Associate with Middle East Capital Company and Banque Audi in Beirut, Lebanon.

Rania holds a Masters in Economics from McGill University in Montreal, Canada and a BA in Economics from the American University of Beirut.

**Oliver Lee**
Head of Risk Management

Oliver Lee has been Head of Risk Management at SHUAA Capital since joining in April 2007. He previously headed Risk Management at Mitsubishi UFJ Trust International for London and Singapore where he was responsible for restructuring the team and enhancing the market, credit and operational frameworks. Prior to Mitsubishi Mr. Lee was a Vice President in Risk Management at JP Morgan Chase in London overseeing various groups across the EMEA region. With his in-depth knowledge and experience of best practices within investment banking, he has helped SHUAA Capital create a risk management framework and governance structure of international standards. Mr. Lee holds a BSc (Hons) in Accounting & Financial Analysis from the University of Warwick.

# Financial Statements

# BOARD OF DIRECTORS' REPORT

## Introduction

Our revenues during 2016 reached AED173.8 million (2015: AED 178.2 million), while overall Group losses reduced by a 30.4% to reach AED 132.5 million (2015: AED 190.3 million).

Our Asset Management division has had a strong year managing real estate funds and projects in Saudi Arabia and the United Arab Emirates, having reported a five-fold increase in profits. The Investment Banking division has also witnessed an active year advising on a series of mergers, acquisitions and general transactions for regional companies. In December, the company initiated this with a strategic acquisition of a 14% stake in Bahrain's Khaleeji Commercial Bank.

## Strategic Highlights

The Group's focus on providing logical solutions that help customers achieve their objectives on both institutional and individual levels, blended with rigorous cost control measures has helped SHUAA weather the turbulence during 2016, maintain a solid client base and prepare for the next stage in the brand's evolution.

SHUAA's balance sheet and total assets at year-end remains healthy at AED 1.3 billion (2015: AED1.6 billion). The Group's liquidity position is strong with AED 346.6 million in cash. Liabilities decreased to AED 474.7 million from AED 638.6 million in 2015. As of 31 December 2016, net assets stood at AED825.8 million while the leverage ratio was 0.45 at year-end.

The Group has also had great success on the market making front, having carried this well established expertise further during 2016 with the launch of the Nasdaq Dubai single stock futures market on an exclusive basis.

## Asset Management

The Asset Management business reported a 492% increase in full year profits to AED 8.3 million (2015: AED 1.4 million). Revenues were AED 27.4 million compared to AED 16.0 million in 2015. The division which manages real estate hospitality funds and projects in addition to a series of Discretionary Portfolio Management accounts delivered a solid set of results thanks to its active presence in both the Saudi and Emirati markets. 2016 saw the launch of the Centro Shaheen by Rotana, a premium hotel in the Saudi city of Jeddah, as well as the announcement of the Cayan Cantara residential and commercial complex in Dubai, jointly with the Cayan Group and Rotana Hotel Management.

## Capital Markets

The Capital Markets division reported a 38.1% increase in revenues to AED 8.6 million (2015: AED 6.2 million), and a loss of AED 8.4 million (2015: AED 7.2 million). The division significantly expanded the team's capabilities during the course of the year including a series of senior appointments in support of long term business objectives within the equities, credit and research teams. Key highlights by the team included SHUAA being the founding Market Maker for Nasdaq Dubai's single stock Futures Market, and the Equity Research team expanding its coverage of various sectors and industries across the Gulf region. The division has four areas of focus: equity and credit desk, market making and research. Each department is performing strongly. The equity desk reported its most promising quarter in two and half years. The credit desk's fourth quarter results was the highest since 2010.

## Investment Banking

SHUAA's Investment Banking division reported full year profits of AED 1.9 million compared to a loss of AED 1.9 million in 2015. Revenues increased by 17.4% to AED 8.4 million (2015: AED 7.1 million). During the year, the Investment Banking division worked on a number of Merger and Acquisition and other general advisory transactions, including (among others) acting as an advisor to Emirates National Group on a strategic acquisition of a stake in Misr Bus, advising Amanat on the acquisition of a stake in Madaares, and advising Al Laith Group Investments on a strategic sale. The division continues to work on a number of M&A advisory and capital markets transactions for GCC based clients across a number of sectors. The Investment Banking team also maintains a strategic Memorandum of Understanding with Dubai SME, providing valuation advisory support to SME100 companies.

## Lending

The lending business comprising Gulf Finance UAE and Gulf Finance Saudi Arabia reduced its losses for the year to AED 110.0 million, from AED 119.9 million in 2015. Revenues for the lending business were 18.5% lower at AED 130.1 million (2015: AED 159.7 million). The division continued to set aside provisions against bad loans due to continued weakness in the SME sector. Gulf Finance Saudi Arabia, which offers Sharia compliant financing solutions to SMEs in the Kingdom, has continued to see stable growth fuelled by strong demand from the Saudi SME market.

At year end, the size of the Gulf Finance UAE and Gulf Finance Saudi Arabia loan portfolios were AED 500 million and AED 189 million respectively, compared to AED 925 million and AED 193 million in 2015.

In the short term, the division will cease lending and focus on collections, cost cutting and improvement on operational processes.

## Corporate

SHUAA's Corporate division which is the backbone of the client facing business divisions recorded revenues of AED 8.8 million (2015: AED 1.2 million), before losses on investments in SHUAA managed funds worth AED 9.5 million (2015: AED 12.0 million).

General and Administrative expenses decreased to AED 33.0 million (2015: AED 34.6 million) as the company continues to consolidate and optimize back office operations.

The division reported a reduction in full year losses to AED 24.3 million (2015: AED 62.6 million).

*Jassim Alseddiqi*
*Chairman*

*13 February 2017*

# INDEPENDENT AUDITOR'S REPORT

**The Shareholders**
**SHUAA Capital PSC**
**Dubai**
**United Arab Emirates**

## Report on the Audit of the Consolidated Financial Statements

*Opinion*

We have audited the consolidated financial statements of SHUAA Capital PSC (the "Company"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2016, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the consolidated financial statements in United Arab Emirates and we have fulfilled our other ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Impairment of loans and advances* | |
| We focused on this area because it requires management to make significant judgements, such as the identification of loans that are deteriorating, the assessment of objective evidence of impairment, the assessment of the recoverable amount and the value of collateral. Due to the significance of loans, advances and finance leases (representing 47% of total assets) and the related estimation uncertainty, we consider this a key audit matter. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, relate to unsecured exposures or are subject to potential collateral shortfalls.<br><br>It is the judgements for collective provisioning which are the most significant as they are the most sensitive to adjustment. The two key judgements in the collective provisioning assessment are the likelihood of default and the emergence period and it is the earlier which is the single most critical judgement as there is limited historic data on which to accurately assess it.<br><br>The Group's individual provisions are also subjective as a result of judgements needed and the relatively limited amount of data available for future cash flows. These loans are individually monitored and the assessment of individual provisions for these loan portfolios involves knowledge of each borrower. The key judgement for individual provisions on these portfolios is the recoverable value of underlying collateral.<br><br>A management overlay is applied to the modelled provisioning balances to reflect risk factors not taken into account by the models. This requires judgement in relation to the factors to be reflected as well as their estimated value.<br><br>Management also applies adjustments, or overlays, where they believe the data driven parameters and calculations are not appropriate, either due to emerging trends or models not capturing the risks in the loan portfolio. An example of this is an overlay for the concentration against certain borrowers which management apply on top of the impairment model output. These overlays require significant judgement. | Our audit procedures included the assessment of controls over the approval and recording of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans and advances.<br><br>We tested the design, implementation and operating effectiveness of key controls to determine:<br><br>- System based and manual based controls over the timely recognition of impaired loans and advances;<br>- Control over loans disbursements and collection; and<br>- Controls over collaterals, including reviewing key meetings that form part of the approval process for loan impairment and assessing management analysis and challenge in the actions taken as a result of the meetings.<br><br>In addition, we also focused on individually significant exposures. We tested the assumptions underlying the impairment identification and quantification.<br><br>We recalculated the collective impairment provision as per the UAE Central Bank requirement to ensure adequacy of provision. |

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Valuation of financial instruments* | |
| The valuation of the Group's financial instruments was a key area of focus as the fair value of financial instruments is determined through the application of valuation technique which often involves the exercise of judgement and the use of assumptions and estimates.<br><br>Due to the significance of financial instruments and the related uncertainty, this is considered a key audit risk. As at 31 December 2016 financial assets carried at fair value or available for sale represented 12.8% of the total assets. Level 1 represented 73%, whereas Level 2 and Level 3 represented around 21% and 6% respectively. Estimation uncertainty is particularly high for those instruments where significant valuation inputs are unobservable i.e. within level 2 and Level 3 whereas in the case of level 1 investments the risk is heightened when current market conditions reduce the liquidity of the investment portfolio and therefore an element of judgement may be needed to be factored in the valuation. | We evaluated the designed and implementation of controls around the valuation of investments.<br><br>We tested 100% of the year end prices by tracing it to reliable third party sources. In addition, the liquidity of the portfolio was considered at the year end date to assess whether any adjustment was required to the valuation of illiquid or suspended for trading assets.<br><br>For unlisted private equity investment we performed additional procedures critically assessing key inputs and assumptions, considering alternative valuation methods and assessing sensitivities to key assumptions.<br><br>Finally we assessed whether the financial statements disclosures, including sensitivities to key inputs appropriately reflects the Groups exposure to financial instruments valuation risk. |
| *Reliability and continuity of the information technology and systems* | |
| We identified IT systems and controls over financial reporting as an area of focus because the Group financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The incorporated key controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems. | We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. We also tested the accuracy and completeness of key computer generated reports heavily used in our testing such as aging report of overdue loans and advances.<br><br>In events deficiencies are noted during our testing affecting applications and databases, we performed a combination of controls testing and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information. In addition and where appropriate, we extended the scope of our substantive audit procedures. |

*Other Information*

Board of Directors are responsible for the other information. The other information comprises the Annual Report of the Group. We obtained the Board of Directors Report of the Annual Report prior to the date of this auditors' report, with the remaining expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement on this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and the Board Audit Committee are responsible for overseeing the Group's financial reporting process.

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the management use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide with those charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*Further, as required by the UAE Federal Law No. (2) 2015, we report that:*

i) We have obtained all the information we considered necessary for the purposes of our audit;

ii) The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii) The Group has maintained proper books of account;

iv) The financial information included in the report of the Directors is consistent with the books of account of the Group;

v) As disclosed in Note 12(a) to the consolidated financial statements the Group purchased and sold shares during the financial year ended 31 December 2016;

vi) Note 29 to the consolidated financial statements discloses material related party transactions and balances and the terms under which they were conducted; and

vii) Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016.

Deloitte & Touche (M.E)

**Cynthia Corby**
Registration No. 995

13 February 2017
Dubai
United Arab Emirates

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**At 31 December 2016**
*(Currency - Thousands of U.A.E. Dirhams)*

| | Notes | **31 December 2016** | 31 December 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits with banks | 7 | **346,610** | 262,674 |
| Receivables and other debit balances | 8 | **31,974** | 35,315 |
| Loans, advances and finance leases | 9 | **609,026** | 959,264 |
| Investments in SHUAA managed funds | 10 | **102,584** | 201,845 |
| Investments in third party associates | 11 | **44,766** | 54,248 |
| Other investments | 12 | **131,962** | 46,085 |
| Property and equipment | 13 | **33,574** | 40,623 |
| **Total Assets** | | **1,300,496** | 1,600,054 |
| **Liabilities** | | | |
| Due to banks | 14 | **296,944** | 453,374 |
| Payables and other credit balances | 15 | **177,763** | 185,192 |
| **Total Liabilities** | | **474,707** | 638,566 |
| **Equity** | | | |
| Share capital | 16 | **1,065,000** | 1,065,000 |
| Employee long term incentive plan shares | 17 | **(5,341)** | (10,790) |
| Statutory reserve | 19 | **-** | 200,861 |
| Accumulated losses | | **(233,256)** | (296,211) |
| Investments revaluation reserve | 20 | **(468)** | 2,781 |
| Translation reserve | | **(180)** | (228) |
| Equity attributable to shareholders of the Parent | | **825,755** | 961,413 |
| Non controlling interests | 21 | **34** | 75 |
| **Total Equity** | | **825,789** | 961,488 |
| **Total Liabilities and Equity** | | **1,300,496** | 1,600,054 |

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 13 February 2017.

Jassim Alseddiqi
Chairman

Houssem Ben Haj Amor
General Manager

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

SHUAA

## CONSOLIDATED STATEMENT OF INCOME

**For the year ended 31 December 2016**
*(Currency - Thousands of U.A.E. Dirhams)*

| | Notes | **1 October to 31 December 2016 (3 months) Unaudited** | **1 January to 31 December 2016 (12 months) Audited** | 1 October to 31 December 2015 (3 months) Unaudited | 1 January to 31 December 2015 (12 months) Audited |
|---|---|---|---|---|---|
| Interest income | | **25,016** | **132,900** | 41,297 | 154,446 |
| Net fee and commission income | 22 | **10,926** | **48,780** | 7,530 | 35,743 |
| Trading income/(loss) | | **716** | **1,586** | (923) | (15) |
| Losses from investments in SHUAA managed funds | 23 | **(1,563)** | **(9,459)** | (7,802) | (12,007) |
| **Total revenues** | | **35,095** | **173,807** | 40,102 | 178,167 |
| General and administrative expenses | 24 | **(31,370)** | **(126,825)** | (30,829) | (130,643) |
| Interest expense | | **(6,607)** | **(28,976)** | (6,933) | (24,963) |
| Depreciation | 13 | **(4,184)** | **(11,563)** | (2,219) | (8,728) |
| Provisions - net | 25 | **(9,080)** | **(143,068)** | (123,731) | (161,598) |
| Goodwill impairment | 26 | **-** | **-** | (34,111) | (34,111) |
| **Total expenses** | | **(51,241)** | **(310,432)** | (197,823) | (360,043) |
| **Net loss before (losses)/ gains from other investments** | | **(16,146)** | **(136,625)** | (157,721) | (181,876) |
| (Losses)/gains from other investments, including investments in third party associates | 27 | **(2,708)** | **4,167** | (4,078) | (8,383) |
| **Loss for the period/year** | | **(18,854)** | **(132,458)** | (161,799) | (190,259) |
| **Attributable to:** | | | | | |
| Equity holders of the Parent | | **(18,853)** | **(132,457)** | (161,800) | (190,256) |
| Non controlling interests | | **(1)** | **(1)** | 1 | (3) |
| | | **(18,854)** | **(132,458)** | (161,799) | (190,259) |
| **Loss per share (in AED)** | 28 | **(0.018)** | **(0.124)** | (0.152) | (0.179) |

*The attached notes 1 to 32 form an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2016**
*(Currency - Thousands of U.A.E. Dirhams)*

| | **1 October to 31 December 2016 (3 months)** | **1 January to 31 December 2016 (12 months)** | 1 October to 31 December 2015 (3 months) | 1 January to 31 December 2015 (12 months) |
|---|---|---|---|---|
| | **Unaudited** | **Audited** | Unaudited | Audited |
| **Loss for the period/year** | **(18,854)** | **(132,458)** | (161,799) | (190,259) |
| **Other comprehensive (loss)/income** | | | | |
| *Items that will be reclassified subsequently to profit or loss:* | | | | |
| Net revaluation reserve movement on: | | | | |
| - other investments | **-** | **(2,781)** | 2,684 | 2,585 |
| - investments in SHUAA managed funds | **(80)** | **(468)** | - | - |
| Exchange differences on translation of foreign operations | **47** | **48** | (1) | (9) |
| **Other comprehensive (loss)/ income for the period/year** | **(33)** | **(3,201)** | 2,683 | 2,576 |
| **Total comprehensive loss for the period/year** | **(18,887)** | **(135,659)** | (159,116) | (187,683) |
| **Attributable to:** | | | | |
| Equity holders of the Parent | **(18,886)** | **(135,658)** | (159,116) | (187,678) |
| Non controlling interests | **(1)** | **(1)** | - | (5) |
| | **(18,887)** | **(135,659)** | (159,116) | (187,683) |

*The attached notes 1 to 32 form an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended 31 December 2016**
*(Currency - Thousands of U.A.E. Dirhams)*

| | **1 January to 31 December 2016** | 1 January to 31 December 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the year | **(132,458)** | (190,259) |
| Adjustments for: | | |
| Depreciation | **11,563** | 8,728 |
| Losses from investments in SHUAA managed funds | **9,459** | 12,007 |
| (Gains)/losses from other investments including third party associates | **(4,167)** | 8,383 |
| Share based payments charge | **-** | 1,827 |
| Goodwill impairment | **-** | 34,111 |
| Provisions – net | **143,068** | 161,598 |
| **Operating cash flows before changes in operating assets and liabilities** | **27,465** | 36,395 |
| Changes in operating assets and liabilities: | | |
| Decrease/(increase) in receivables and other debit balances | **707** | (9,702) |
| Decrease/(increase) in loans, advances and finance leases | **209,172** | (274,619) |
| (Decrease)/increase in payables and other credit balances | **(6,797)** | 65,611 |
| Net redemption from/(acquisition of) SHUAA managed funds | **89,334** | (9,794) |
| **Net cash generated from / (used in) operating activities** | **319,881** | (192,109) |
| **Cash flows from investing activities** | | |
| Net purchase of other investments | **(85,598)** | (23,002) |
| Dividends distributions from associates | **4,760** | 4,800 |
| Net purchase of property and equipment | **(4,514)** | (10,325) |
| **Net cash used in investing activities** | **(85,352)** | (28,527) |
| **Cash flows from financing activities** | | |
| (Decrease)/increase in due to banks | **(156,430)** | 118,142 |
| Distribution to non controlling interests | **(40)** | (145) |
| **Net cash (used in) / generated from financing activities** | **(156,470)** | 117,997 |
| **Net increase/(decrease) in cash and cash equivalents** | **78,059** | (102,639) |
| Foreign currency translation | **70** | (7) |
| Cash and cash equivalents at beginning of the year | **238,195** | 340,841 |
| **Cash and cash equivalents at end of the year (note 7)** | **316,324** | 238,195 |
| **Operational cash flows from interest and dividend** | | |
| Interest received | **132,706** | 154,126 |
| Interest paid | **(29,267)** | (20,976) |
| Dividend received | **4,760** | 4,800 |

*The attached notes 1 to 32 form an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2016**
*(Currency - Thousands of U.A.E. Dirhams)*

| | Equity attributable to shareholders of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Employee long term incentive plan shares | Statutory reserve | Accumulated losses | Investments revaluation reserve | Translation reserve | Total | Non controlling interests | Total |
| Balance as of 1 January 2015 | 1,065,000 | (36,896) | 200,861 | (81,676) | 196 | (221) | 1,147,264 | 225 | 1,147,489 |
| Total comprehensive loss for the year | - | - | - | (190,256) | 2,585 | (7) | (187,678) | (5) | (187,683) |
| Share based payments charge (note 18) | - | - | - | 1,827 | - | - | 1,827 | - | 1,827 |
| Net movement in employee long term incentive plan shares (note 17) | - | 26,106 | - | (26,106) | - | - | - | - | - |
| Distribution to non controlling interests | - | - | - | - | - | - | - | (145) | (145) |
| Balance as of 31 December 2015 | 1,065,000 | (10,790) | 200,861 | (296,211) | 2,781 | (228) | 961,413 | 75 | 961,488 |

| | **Equity attributable to shareholders of the Parent** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Employee long term incentive plan shares | Statutory reserve | Accumulated losses | Investments revaluation reserve | Translation reserve | Total | Non controlling interests | Total |
| **Balance as of 1 January 2016** | **1,065,000** | **(10,790)** | **200,861** | **(296,211)** | **2,781** | **(228)** | **961,413** | **75** | **961,488** |
| Total comprehensive loss for the year | - | - | - | (132,457) | (3,249) | 48 | (135,658) | (1) | (135,659) |
| Net movement in employee long term incentive plan shares (note 17) | - | 5,449 | - | (5,449) | - | - | - | - | - |
| Distribution to non controlling interests | - | - | - | - | - | - | - | (40) | (40) |
| Accumulated losses offset (note 19) | - | - | (200,861) | 200,861 | - | - | - | - | - |
| **Balance as of 31 December 2016** | **1,065,000** | **(5,341)** | **-** | **(233,256)** | **(468)** | **(180)** | **825,755** | **34** | **825,789** |

*The attached notes 1 to 32 form an integral part of these consolidated financial statements.*

## 1. LEGAL STATUS AND ACTIVITIES

**SHUAA Capital psc** (the 'Company' or the 'Parent') is a public shareholding company established in Dubai, United Arab Emirates, pursuant to Emiri Decree No. 6 of 25 April 1979. The registered address of the Company is P.O. Box 31045, Dubai, United Arab Emirates. The Company's shares are traded on the Dubai Financial Market in the United Arab Emirates.

The Company is licensed by the Central Bank of the United Arab Emirates to conduct services as a financial investment company and a banking, finance and investment advisor pursuant to Central Bank Board of Directors Resolution 164/8/94 and as a financial and monetary intermediary pursuant to Central Bank Board of Directors Resolution 126/5/95.

The Company and its subsidiaries (together the "Group") conduct a diversified range of investment and financial service activities strategy with special emphasis on the Arab region in general, the U.A.E. and G.C.C. markets in particular and is actively involved in public and private capital markets in the region.

Details of the Company's material subsidiaries as at 31 December 2016 are as follows:

| Name | Country of incorporation | Principal activities | Holding 31 December 2016 | Holding 31 December 2015 |
|---|---|---|---|---|
| Gulf Finance Company PJSC | United Arab Emirates | Financing | **100.0%** | 100.0% |
| Gulf Finance Company CJSC | Saudi Arabia | Financing | **100.0%** | 100.0% |
| SHUAA Capital International Limited | United Arab Emirates | Brokerage | **100.0%** | 100.0% |
| SHUAA Asset Management Limited | United Arab Emirates | Private Equity/Asset Management | **100.0%** | 100.0% |
| SHUAA Securities LLC | United Arab Emirates | Brokerage | **100.0%** | 100.0% |
| SHUAA Capital Saudi Arabia CJSC | Saudi Arabia | Financial services | **100.0%** | 100.0% |
| SHUAA Securities Egypt SAE | Egypt | Brokerage | **100.0%** | 100.0% |
| Asia for Economic Consultancy LLC | Jordan | Consultancy | **94.3%** | 94.3% |

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### Relevant new and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS have been adopted in these consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

| | *Effective for annual periods beginning on or after* |
|---|---|
| ***Amendments to IAS 1 Presentation of Financial Statements*** *to address perceived impediments to preparers exercising their judgment in presenting their financial reports.* | *1 January 2016* |
| ***Amendments to IFRS 11 Joint Arrangements*** *clarify accounting for acquisitions of Interests in Joint Operations.* | *1 January 2016* |
| ***Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*** *clarify the acceptable methods of depreciation and amortisation.* | *1 January 2016* |
| ***Amendments to IAS 27 Separate Financial Statements*** *allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.* | *1 January 2016* |
| ***Amendments to IFRS 10, IFRS 12 and IAS 28*** *clarifying certain aspects of applying the consolidation exception for investment entities.* | *1 January 2016* |
| ***Annual Improvements to IFRSs 2012 – 2014 Cycle*** *covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.* | *1 January 2016* |

## Relevant new and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised IFRS, amendments and interpretations that have been issued but not yet effective:

| | *Effective for annual periods beginning on or after* |
|---|---|
| *IFRS 9 Financial Instruments* | *1 January 2018* |
| *IFRS 15 Revenue from Contracts with Customers* | *1 January 2018* |
| *IFRS 16 Leases* | *1 January 2019* |
| *Amendments to IFRS 2 Share Based Payment* | *1 January 2018* |
| *Amendments to IAS 12 Income Taxes* | *1 January 2017* |
| *Amendments to IAS 7 Statement of Cash Flows* | *1 January 2017* |
| *Amendments to IAS 40 Investment Property* | *1 January 2018* |
| *Amendments to IFRS 7 Financial Instruments* | *When IFRS 9 is first applied* |
| *Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28* | *1 January 2017 (IFRS 12)*<br>*1 January 2018 (IFRS 1 & IAS 28)* |

**Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating new requirements for classification, measurement, impairment, general hedge accounting and de-recognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.*

The Group anticipates that these new standards will be adopted in the Group's consolidated financial statements in the year of initial application and that the application of such standards may have significant impact on amounts reported in respect of the Group's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

# 3. SIGNIFICANT ACCOUNTING POLICIES

## Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS and applicable provisions of Federal Law No 2 of 2015 (as amended) of United Arab Emirates Laws. The UAE Federal Law No. 2 of 2015 ("Companies Law") has come into force on 1 July 2015. The Company expects to be fully compliant on or before the end of transitional period on 30 June 2017.

## Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

## Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent company and its subsidiaries (together the "Group"). The results of these subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition up to the effective date of disposal. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. All significant inter-company balances, transactions and profits have been eliminated upon consolidation.

Control is achieved where the Group has power over an investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Non controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to the shareholders of the Parent.

## Trade date accounting

All "regular way" sales and purchases of financial assets are recognised on the "trade date", the date that the Group commits to sell or purchase the asset. Regular way sales or purchases are sales or purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

## Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognised on an effective interest basis for debt instruments other than those financial instruments classified as held for trading.

## Financial assets

The Group classifies its financial assets at initial recognition in the following categories:

- Held for trading investments
- Investment securities designated at fair value through profit or loss
- Loans and advances
- Available for sale investments

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### Held for trading investments and investment securities designated at fair value through profit or loss

These represent investments acquired or incurred principally for the purpose of generating profit from short term fluctuations in price. The fair value of the investments under this classification can be reliably measured and gains and losses arising from changes in fair values are included in the consolidated statement of income in the period in which they arise.

These investments are initially recognised at cost, being the fair value of the consideration given, excluding all acquisition costs associated with the investment.

After initial recognition, these investments are measured at fair value. The fair value of securities traded in recognised financial markets is their quoted price. For securities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis, option pricing models or other reliable valuation methods.

Any gain or loss arising from a change in the fair value of these investments is recognised in the consolidated statement of income for the period in which it arises. Dividend, interest and other revenues generated from these investments are included in the consolidated statement of income.

### Loans and advances

Instruments that are non derivative financial assets with fixed or determinable payments and that are not quoted in an active market are designated as loans and advances. These are measured at amortised cost using the effective interest method, less any provision for impairment. The Group has a policy of establishing specific provisions against loans and advances to customers, where management considers the recovery of the balance to be doubtful. Loans and advances are only written off after all practical means of pursuing recovery have been exhausted.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the reporting date. These are estimated based upon historical patterns of losses in each component and reflecting the current economic climate in which the borrowers operate.

**Available for sale investments**
Available for sale financial assets are non derivatives that are either designated in this category or not classified as held for trading, loans and advances or held to maturity investments. After initial recognition, investments available for sale are measured at fair value. For investments actively traded in organised financial markets, fair value is generally determined by reference to stock exchange quoted price at the close of business on the reporting date, adjusted for illiquidity constraints and other costs necessary to realise the asset's value.

Where the investments are not traded in an active market, traded in small volumes, or where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on earnings factors, projected cash flows and a valuation multiple that considers comparable indicators used in recent mergers and acquisitions, or the projected sale value of the investment if negotiations are currently in progress. Investments whose fair value cannot be reliably measured are carried at cost less any provision for impairment.

Gains or losses arising from a change in the fair value of investments available for sale are recognised in other comprehensive income under the heading of 'investment revaluation reserve'. When the investment is derecognised or determined to be impaired, the accumulated amount in the investment revaluation reserve is reclassified to the consolidated statement of income.

Reversals of previously recognised impairment losses are not initially recorded through the consolidated statement of income but as an increase in the investment revaluation reserve pending realisation.

**Derivatives**
Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

**Derecognition of financial assets**
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in consolidated statement of income.

## Financial liabilities

The Group classifies its financial liabilities at initial recognition as other financial liabilities.

**Other financial liabilities**
These include medium term debt and payables and other credit balances and are subsequently measured at amortised cost using the effective interest method.

**Financial guarantee contract**
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

**Derecognition of financial liabilities**
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of income.

## Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.  Significant influence is the power to participate in the financial and operating policy discussions of the investee but is not control or joint control over those policies. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

## Leases

The Group provides leasing services acting as Lessor. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

## Goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Goodwill is initially recognised at its cost, being the excess of the cost of the acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

## Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised to write-off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight line method. The estimated useful lives, residual lives and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is provided on a straight-line basis over the assets' estimated useful lives over the following periods:

| | |
|---|---|
| Furniture and leasehold improvements | 1-5 years |
| Office equipment, computers and software | 3-5 years |
| Motor vehicles | 4 years |
| Buildings | 40 years |

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

## Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the consolidated statement of income.

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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Impairment losses relating to goodwill cannot be reversed in future periods.

## Income recognition

Interest income, as well as fees which are considered an integral part of the effective yield of a financial asset, are recognised using the effective interest method, unless recoverability is in doubt. The recognition of interest income is suspended when financial assets become impaired.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Fee and commission income and expenses are accounted for on the date the transaction arises.

## Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## Share-based payment transactions

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees receives equity instruments ("equity-settled transactions") as consideration for services rendered.

### Equity–settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in note 18.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for a period is recorded in "employee salaries and fringe benefits" and represents the movement in the cumulative expense recognised at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

## Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with applicable legislations. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Company contributes to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security. The Company's obligations are limited to these contributions, which are expensed when due.

## Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entities operate ("the functional currency"). The consolidated financial statements are presented in UAE Dirhams which is the Company's functional and presentational currency.

Monetary assets and liabilities held at the reporting date and denominated in foreign currencies are translated into the functional currency at exchange rates prevailing as at the reporting date. The resulting exchange differences are taken to the consolidated statement of income.

On consolidation, assets and liabilities of subsidiaries are translated at rates of exchange prevailing as at the reporting date and the results of their operations are translated at the average rates of exchange for the year. The exchange differences arising on consolidation and equity accounting are taken to other comprehensive income (attributed to non controlling interests as appropriate).

On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income and accumulated in the separate component of equity relating to that particular foreign operation is recognised in the consolidated statement of income as part of the gain or loss on sale.

## Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated statement of cash flows consist of cash and short term deposits maturing within 90 days or less.

## Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

# 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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.

## Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

### Going concern

Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

### Classification of financial assets

The classification of financial assets, in the categories described in the significant accounting policies note, depends on the nature and purpose of the financial assets and is determined at the time of initial recognition requiring the exercise of judgment by the management.

### Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of consolidated financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

**Impairment losses on loans, advances and finance leases**

The Group reviews its loans, advances and finance leases at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant balances, the Group also makes a collective impairment allowance against exposures (incorporating relevant requirements of the Central Bank of the U.A.E) which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

**Impairment of available for sale investments**

The Group assesses at each reporting date whether there is objective evidence that an individual or a group of available for sale investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Subsequent increases in their fair value after impairment are recognised in other comprehensive income under the heading of 'investments revaluation reserve'.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

## Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Valuation of unquoted equity investments**

Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates its valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| *Financial assets* | | | | |
| Investments in SHUAA managed funds | | | | |
| Held at fair value through profit or loss | **-** | **18,501** | **-** | **18,501** |
| Available for sale | **-** | **15,692** | **-** | **15,692** |
| Other investments | | | | |
| Held at fair value through profit or loss | **121,850** | **674** | **379** | **122,903** |
| Available for sale | **-** | **16** | **9,043** | **9,059** |
| | **121,850** | **34,883** | **9,422** | **166,155** |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments in SHUAA managed funds | | | | |
| Held at fair value through profit or loss | - | 119,694 | - | 119,694 |
| Available for sale | - | 9,794 | - | 9,794 |
| Other investments | | | | |
| Held at fair value through profit or loss | 29,506 | 749 | 945 | 31,200 |
| Available for sale | - | 5,430 | 9,455 | 14,885 |
| | 29,506 | 135,667 | 10,400 | 175,573 |
| *Financial liabilities* | | | | |
| Held at fair value through profit or loss | (89) | - | - | (89) |

## Financial assets recorded at fair value:

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

*Held at fair value through profit or loss*

Held at fair value through profit or loss investments are valued using market prices in active markets or valuation techniques which incorporate data which is both observable and non-observable. This category includes quoted and unquoted securities and funds which invest in underlying assets which are in turn valued based on both observable and non-observable data. Observable inputs include market prices (from active markets), foreign exchange rates and movements in stock market indices. Unobservable inputs include assumptions regarding expected future financial performance, discount rates and market liquidity discounts.

*Available for sale*

Available for sale financial assets are valued using quoted prices in active markets, valuation techniques or pricing models and consist of quoted equities, unquoted equities and unquoted funds. These assets are valued using quoted prices or models which incorporate data which is both observable and non-observable. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

## Movements in level 3 financial assets measured at fair value

During the year, there was no transfer between level 1 and level 3.

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets which are recorded at fair value:

| | 31 December 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Balance at 1 January 2016** | **Gain/(loss) through P&L** | **Gain/(loss) through OCI** | **Purchases** | **Sales** | **Transfers from/ (to) levels 1 &2** | **Balance at 31 December 2016** |
| Other investments | | | | | | | |
| Held at FVTPL | **945** | **(566)** | **-** | **-** | **-** | **-** | **379** |
| Available for sale | **9,455** | **(412)** | **-** | **-** | **-** | **-** | **9,043** |
| | **10,400** | **(978)** | **-** | **-** | **-** | **-** | **9,422** |

| | 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance at 1 January 2015 | Gain/(loss) through P&L | Gain/(loss) through OCI | Purchases | Sales | Transfers from/(to) levels 1 &2 | Balance at 31 December 2015 |
| Other investments | | | | | | | |
| Held at FVTPL | 1,038 | 89 | - | - | (182) | - | 945 |
| Available for sale | 12,313 | (51) | 2,586 | - | - | (5,393) | 9,455 |
| | 13,351 | 38 | 2,586 | - | (182) | (5,393) | 10,400 |

Gains and losses on level 3 financial instruments included in the consolidated statement of income for the year are detailed as follows:

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Other investments | | |
| Realised gains | **-** | 89 |
| Unrealised losses | **(978)** | (51) |
| | **(978)** | (38) |

## Impact on fair value of level 3 financial assets measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | **Carrying amount** | **Effect of reasonably possible alternative assumptions** | Carrying amount | Effect of reasonably possible alternative assumptions |
| Other investments | | | | |
| Held at fair value through profit or loss | **379** | **95** | 945 | 236 |
| Available for sale | **9,043** | **1,809** | 9,455 | 1,891 |
| | **9,422** | **1,904** | 10,400 | 2,127 |

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable models inputs as follows:

- For debt securities, the Group adjusted the probability of default and loss given default assumptions by increasing and decreasing the fair value of the instrument by 25%.
- For fund and equity investments, the Group adjusted the liquidity discount rate assumptions used in the valuation model within a range of reasonably possible alternatives. The extent of the adjustment varied according to the characteristics of each investment.

The fair values of the Group's financial instruments are not materially different from their carrying values

# 6. FINANCIAL RISK MANAGEMENT

## Introduction

The inherent risk relating to the Group's activities is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit risk, liquidity risk, market risk (comprising, interest rate risk, foreign exchange risk and equity price risk) and operational risk.

## Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risk relating to the Group's activities and recognises the importance of managing risk in line with shareholder risk appetite.

Authority to set Group-wide rules to manage credit, liquidity and market risk are delegated to the Governance Committees of the Group and to each subsidiary. However, enterprise wide risk is monitored by the Group Management Committees which ensures that Group rules are adhered to.

## Credit risk

Credit risk, or the risk of loss due to default on payment, is controlled by the application of credit approvals and monitoring procedures. Rules to limit exposure to credit risk are set by the Board of Directors and authority is delegated to the Governance Committees to set rules by business and strategy. Adherence to overall limits, authorisation, concentration and collateral requirements are independently monitored and managed by Risk Management.

Risk Management oversees the status of receivables, exposures and provisions and mitigation steps are approved for any balances considered doubtful in accordance with internal and regulatory policies and guidelines.

### Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position, before considering collateral or other credit enhancement, is shown below:

| | **Gross maximum exposure 31 December 2016** | Gross maximum exposure 31 December 2015 |
|---|---|---|
| Cash and deposits with banks | **346,610** | 262,674 |
| Receivables and other debit balances | **31,974** | 35,315 |
| Loans, advances and finance leases | **609,026** | 959,264 |
| Other investments | | |
| Held at fair value through profit or loss | **12,113** | 30,160 |
| | **999,723** | 1,287,413 |
| Contingent liabilities | **1,899** | 9,644 |
| Commitments | **67,199** | 67,613 |
| | **69,098** | 77,257 |
| **Total credit risk exposure** | **1,068,821** | 1,364,670 |

The Group does not have significant credit risk exposure to any single counterparty or group of counterparties that have similar credit risk.

The Group's assets, before considering collateral held or other credit enhancements can be analysed by the following geographical regions:

| | **UAE** | **GCC Other** | **MENA Other** | **North America** | **Europe** | **Asia Other** | **Total** |
|---|---|---|---|---|---|---|---|
| Cash and deposits with banks | **250,009** | **87,431** | **2,689** | **551** | **5,930** | **-** | **346,610** |
| Receivables and other debit balances | **17,942** | **13,519** | **502** | **-** | **11** | **-** | **31,974** |
| Loans, advances and finance leases | **391,943** | **217,026** | **18** | **-** | **-** | **39** | **609,026** |
| Investments in SHUAA managed funds | **16,367** | **86,217** | **-** | **-** | **-** | **-** | **102,584** |
| Investments in third party associates | **44,766** | **-** | **-** | **-** | **-** | **-** | **44,766** |
| Other investments | **22,721** | **106,877** | **394** | **581** | **1,389** | **-** | **131,962** |
| Property and equipment | **28,903** | **4,654** | **17** | **-** | **-** | **-** | **33,574** |
| **Total Assets - 31 December 2016** | **772,651** | **515,724** | **3,620** | **1,132** | **7,330** | **39** | **1,300,496** |
| Total Assets - 31 December 2015 | 1,140,641 | 453,796 | 3,059 | 727 | 1,826 | 5 | 1,600,054 |

**Collateral and other credit enhancements**

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collaterals mainly include cash, liquid securities, buildings, vessels, mortgages on vehicles and private equity holdings.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

| | 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired | | | Past due or individually impaired | Grand Total |
| | High grade | Standard grade | Total | | |
| Cash and deposits with banks | 346,610 | - | 346,610 | - | 346,610 |
| Receivables and other debit balances | - | 31,974 | 31,974 | - | 31,974 |
| Loans, advances and finance leases | - | 426,103 | 426,103 | 182,923 | 609,026 |
| Other investments | - | 11,734 | 11,734 | 379 | 12,113 |
| | 346,610 | 469,811 | 816,421 | 183,302 | 999,723 |

| | 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired | | | Past due or individually impaired | Grand Total |
| | High grade | Standard grade | Total | | |
| Cash and deposits with banks | 262,674 | - | 262,674 | - | 262,674 |
| Receivables and other debit balances | - | 35,315 | 35,315 | - | 35,315 |
| Loans, advances and finance leases | - | 771,432 | 771,432 | 187,832 | 959,264 |
| Other investments | - | 29,215 | 29,215 | 945 | 30,160 |
| | 262,674 | 835,962 | 1,098,636 | 188,777 | 1,287,413 |

It is the Group's policy to maintain accurate and up to date risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly. High grade assets represent all cash assets and standard grade are assets which have not defaulted during the term of the facility.

Ageing analysis of past due but not impaired and details of individually impaired exposures per class of financial assets is shown below:

**31 December 2016**

| | Ageing analysis of past due but not impaired | | | | | Individually impaired | | | Past due or individually impaired |
|---|---|---|---|---|---|---|---|---|---|
| | <30 days | 30-60 days | 60-90 days | Provision | Carrying amount | Gross amount | Provision | Carrying amount | |
| Loans, advances and finance leases | 34,457 | 47,344 | 25,270 | (1,253) | **105,818** | 249,819 | (172,714) | **77,105** | **182,923** |
| Other investments | - | - | - | - | - | 4,485 | (4,106) | **379** | **379** |
| | **34,457** | **47,344** | **25,270** | **(1,253)** | **105,818** | **254,304** | **(176,820)** | **77,484** | **183,302** |

31 December 2015

| | Ageing analysis of past due but not impaired | | | | | Individually impaired | | | Past due or individually impaired |
|---|---|---|---|---|---|---|---|---|---|
| | <30 days | 30-60 days | 60-90 days | Provision | Carrying amount | Gross amount | Provision | Carrying amount | |
| Loans, advances and finance leases | 77,773 | 51,112 | 28,913 | (2,592) | 155,206 | 254,487 | (221,861) | 32,626 | 187,832 |
| Other investments | - | - | - | - | - | 4,480 | (3,535) | 945 | 945 |
| | 77,773 | 51,112 | 28,913 | (2,592) | 155,206 | 258,967 | (225,396) | 33,571 | 188,777 |

Specific impairment is assessed when there is a significant deterioration in the credit quality of the exposure.

## Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, managed assets with liquidity in mind and monitored liquidity on a daily basis.

The Group's approach aims to always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses and without materially affecting the return on capital. The Group Assets and Liabilities Committee sets minimum liquidity ratios and cash balance requirements. The Group collates the projected cash flow and liquidity profiles of its financial assets and financial liabilities. It maintains a portfolio of short-term liquid assets to cover requirements, largely consisting of short-term liquid placements with financial institutions.

The three primary measures of liquidity used by the Group are stock of liquid assets, surplus cash capital and net funding requirement. Liquid assets include cash and cash equivalents and other short term financial assets. Cash capital is defined as the aggregate of the Group's capital base, intra-group liabilities maturing later than 12 months and any undrawn committed facilities by the Group. Cash capital is used to fund long term funding requirements including investment in associates, investment securities and property and equipment. Net funding requirement is the liquid assets necessary to fund the cash obligations and commitments.

The maturity profile of assets and liabilities as of the reporting date, determined on the basis of the remaining contractual maturity is as follows. Where assets have no contractual maturity date (*) management has made an estimate of the maturity date based on the liquidity of the asset and their intention.

The maturity profile of assets and liabilities as of 31 December 2016 is as follows:

| | Less than 3 Months | 3-12 Months | Sub total Less than a year | 1-5 Years | Over 5 years | Grand total |
|---|---|---|---|---|---|---|
| Cash and deposits with banks | 316,324 | 23,108 | **339,432** | **7,178** | **-** | **346,610** |
| Receivables and other debit balances | 15,188 | 13,522 | **28,710** | **3,264** | **-** | **31,974** |
| Loans, advances and finance leases | 141,953 | 214,694 | **356,647** | **252,379** | **-** | **609,026** |
| Investments in SHUAA managed funds* | 18,501 | 22,797 | **41,298** | **61,286** | **-** | **102,584** |
| Investments in third party associates* | - | - | **-** | **44,766** | **-** | **44,766** |
| Other investments* | 18,658 | 9,153 | **27,811** | **104,151** | **-** | **131,962** |
| Property and equipment* | - | - | **-** | **33,574** | **-** | **33,574** |
| **Total Assets** | **510,624** | **283,274** | **793,898** | **506,598** | **-** | **1,300,496** |
| | | | | | | |
| Due to banks | 51,127 | 145,114 | **196,241** | **100,703** | **-** | **296,944** |
| Payables and other credit balances | 88,536 | 84,146 | **172,682** | **5,081** | **-** | **177,763** |
| Equity | - | - | **-** | **-** | **825,789** | **825,789** |
| **Total Liabilities and Equity** | **139,663** | **229,260** | **368,923** | **105,784** | **825,789** | **1,300,496** |
| **Net liquidity gap** | **370,961** | **54,014** | **424,975** | **400,814** | **(825,789)** | **-** |
| **Cumulative liquidity gap** | **370,961** | **424,975** | **424,975** | **825,789** | **-** | **-** |

The maturity profile of assets and liabilities as of 31 December 2015 was as follows:

| | Less than 3 Months | 3-12 Months | Sub total Less than a year | 1-5 Years | Over 5 years | Grand total |
|---|---|---|---|---|---|---|
| Cash and deposits with banks | 238,195 | 22,871 | 261,066 | 1,608 | - | 262,674 |
| Receivables and other debit balances | 20,609 | 10,692 | 31,301 | 4,014 | - | 35,315 |
| Loans, advances and finance leases | 140,729 | 291,683 | 432,412 | 526,852 | - | 959,264 |
| Investments in SHUAA managed funds* | 99,694 | 48,238 | 147,932 | 53,913 | - | 201,845 |
| Investments in third party associates* | - | 5,527 | 5,527 | 48,721 | - | 54,248 |
| Other investments* | 34,898 | 9,219 | 44,117 | 1,968 | - | 46,085 |
| Property and equipment* | - | - | - | 40,623 | - | 40,623 |
| Total Assets | 534,125 | 388,230 | 922,355 | 677,699 | - | 1,600,054 |
| | | | | | | |
| Due to banks | 65,263 | 132,031 | 197,294 | 256,080 | - | 453,374 |
| Payables and other credit balances | 91,969 | 88,033 | 180,002 | 5,190 | - | 185,192 |
| Equity | - | - | - | - | 961,488 | 961,488 |
| Total Liabilities and Equity | 157,232 | 220,064 | 377,296 | 261,270 | 961,488 | 1,600,054 |
| Net liquidity gap | 376,893 | 168,166 | 545,059 | 416,429 | (961,488) | - |
| Cumulative liquidity gap | 376,893 | 545,059 | 545,059 | 961,488 | - | - |

The Group's contractual undiscounted repayment obligations on interest bearing financial liabilities are as follows:

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | **Less than 3 months** | **3 - 12 months** | **1 - 5 years** | **Total** |
| Due to banks | **52,505** | **151,823** | **107,810** | **312,138** |
| Payables and other credit balances | **12,526** | **63,424** | **2,459** | **78,409** |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| | Less than 3 months | 3 - 12 months | 1 - 5 years | Total |
| Due to banks | 66,720 | 138,321 | 276,262 | 481,303 |
| Payables and other credit balances | 11,610 | 57,199 | 1,928 | 70,737 |

Contractual expiry by maturity of the Group's contingent liabilities and commitments are shown below:

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | **Less than 3 months** | **3 - 12 months** | **1 - 5 years** | **Total** |
| Contingent liabilities | **169** | **1,730** | **-** | **1,899** |
| Commitments | **-** | **-** | **67,199** | **67,199** |
| Total | **169** | **1,730** | **67,199** | **69,098** |

| | 31 December 2015 | | | |
|---|---|---|---|---|
| | Less than 3 months | 3 - 12 months | 1 - 5 years | Total |
| Contingent liabilities | 7,052 | 2,366 | 226 | 9,644 |
| Commitments | 300 | 114 | 67,199 | 67,613 |
| Total | 7,352 | 2,480 | 67,425 | 77,257 |

The Group expects that not all of the contingent liabilities or commitments will be drawn.

## Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group faces market risk due to positions that are exposed to interest rate, currency and equity price movements.

The Board of Directors approves the investment guidelines to limit the Group's exposure to market risk. Within these guidelines the Group Assets and Liabilities Committee sets performance targets and allocates risk and capital enterprise wide and approves investment rules for each business or strategy. Group Risk Management monitors independently the level of market risk on a daily basis against the investment rules at each level of the company. Any issues or excessive exposures are resolved immediately and reported to the Group Assets and Liabilities Committee to determine if further action is required. Also, the Group Assets and Liabilities Committee decide whether any enterprise wide hedging is required to mitigate any material Group wide exposures.

## Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Group's consolidated statement of income.

| Currency | Increase in basis points | Sensitivity of net interest income 31 December 2016 | Sensitivity of net interest income 31 December 2015 |
|---|---|---|---|
| AED | 25 | **(255)** | (641) |
| SAR | 25 | **(121)** | (92) |
| USD | 25 | **3** | - |

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the variable rate non-trading financial assets and financial liabilities held at 31 December 2016. The book value of assets and liabilities subject to variable interest rates is respectively 166,232 and 299,339 (31 December 2015 – 96,491 and 455,053).

There is no impact on the Group equity, other than the implied effect on profits.

## Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group has exposure in foreign currencies as a result of its geographically diversified operations which is monitored by management in adherence with internal guidelines.

The table below indicates the currencies to which the Group had significant exposure at 31 December 2016. The analysis indicates the effect on profit and equity of an assumed 1% strengthening in the UAE Dirham value against other currencies from levels applicable at 31 December 2016, with all other variables held constant.

A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

| | | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|---|
| | % Change in Currency rate | Effect on profit | Effect on equity | Effect on profit | Effect on equity |
| Currency | | AED '000 | AED '000 | AED '000 | AED '000 |
| Kuwaiti Dinar | +1 | **-** | **-** | - | (54) |
| Egyptian Pound | +1 | **(1)** | **2** | (2) | (1) |
| Euro | +1 | **2** | **-** | 3 | - |

The UAE Dirham, Saudi Riyal, Qatari Riyal, Omani Riyal, Bahraini Dinar and Jordanian Dinar are pegged to the US Dollar. As a result, balances in these currencies do not result in foreign currency risk for the Group.

### Equity price risk

Equity price risk is the risk that the fair values of securities decrease as the result of changes in market values. The effect of equity price risk on the Group with all other variables held constant is as follows:

| | | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|---|
| | % Change in equity price | Effect on profit AED '000 | Effect on equity AED '000 | Effect on profit AED '000 | Effect on equity AED '000 |
| **Equities** | | | | | |
| Bahrain | -5 | **(5,160)** | **-** | - | - |
| Kuwait | -5 | **(3)** | **-** | - | (270) |
| UAE | -5 | **(347)** | **-** | (11) | - |
| Egypt | -5 | **(1)** | **-** | (2) | - |
| **Funds** | -5 | **(1,406)** | **(785)** | (6,494) | (490) |
| **Bonds** | -5 | **(606)** | **-** | (1,508) | - |

## Operational risk

Operational risk is the risk of loss resulting from systems failure, human error, fraud or external events. Authority is delegated by the Board of Directors to Group Management Committees to set the Group wide operational policies to manage the risk and control environment and meet the expectations of the Board of Directors and shareholders.

Group Risk Management use a risk and control framework to identify, measure, manage and monitor risk throughout the Group and ensure adherence to Group wide policies.

## Capital risk management

The primary objective of the Group's capital management is to ensure that the Group maintains a strong capital structure, in order to support its business and to maximise shareholders' return.

The Group's policy is to maintain a strong capital base well above the minimum requirements to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group in terms of the gearing ratio is as shown below:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Total borrowings | **369,897** | 522,774 |
| Total equity | **825,789** | 961,488 |
| **Gearing ratio** | **0.45** | 0.54 |

Borrowings consist of short and medium term bank borrowings and financial liabilities to other parties.

Equity includes all capital and reserves of the Group that are managed as capital.

## 7. CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks include deposits of 30,286 (31 December 2015 – 24,479) with banks, which are held as collateral against Group's banking facilities including the Central Bank of the U.A.E. guarantee. For the purposes of consolidated statement of cash flows, cash and cash equivalents are stated net of these deposits.

## 8. RECEIVABLES AND OTHER DEBIT BALANCES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Client related receivables | 4,568 | 3,328 |
| Receivable against unsettled trades | 318 | 8,984 |
| Prepayments | 7,950 | 8,201 |
| Deposits | 9,468 | 8,932 |
| Advances for staff programs | 1,298 | 1,597 |
| Interest receivable | 773 | 579 |
| Amounts due from related parties | 27 | 426 |
| Advances to suppliers | - | 1,098 |
| Other | 7,572 | 2,170 |
| | 31,974 | 35,315 |

## 9. LOANS, ADVANCES AND FINANCE LEASES

Loans, advances and finance leases comprise the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Loans and advances | 379,294 | 743,657 |
| Finance leases | 192,667 | 207,427 |
| Margin lending | 37,065 | 8,180 |
| | 609,026 | 959,264 |

### (a) Loans and advances

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Total loans and advances | 498,308 | 917,839 |
| Cumulative provision for impairment | (106,175) | (160,505) |
| Interest in suspense | (12,839) | (13,677) |
| | 379,294 | 743,657 |

The movement in cumulative provision for impairment of loans and advances during the year is as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Balance at beginning of the year | **(160,505)** | (33,151) |
| Provisions / recoveries made during the year | **(144,183)** | (157,570) |
| | **(304,688)** | (190,721) |
| Less: write offs | **198,513** | 30,216 |
| Balance at end of the year | **(106,175)** | (160,505) |
| | | - |

The cumulative provision for impairment represents management's best estimate of potential losses in the loans and advances as at the reporting date.

## (b) Finance Leases

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Current finance lease receivables | **123,731** | 113,671 |
| Non-current finance lease receivables | **82,740** | 101,230 |
| Allowances for uncollectible lease payments | **(13,804)** | (7,474) |
| | **192,667** | 207,427 |

*Leasing arrangements – the Group as lessor*

The Group entered into finance lease arrangements to lease out certain of its equipment to its customers. The average term of finance leases entered into is between 2 and 4 years.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Not later than one year | **146,488** | 138,975 | **123,731** | 113,671 |
| Later than one year and not later than five years | **93,914** | 115,135 | **82,740** | 101,230 |
| | **240,402** | 254,110 | **206,471** | 214,901 |
| Less: unearned finance income | **(33,931)** | (39,209) | **-** | - |
| Present value of minimum lease payments receivable | **206,471** | 214,901 | **206,471** | 214,901 |
| Allowances for uncollectible lease payments | **(13,804)** | (7,474) | **(13,804)** | (7,474) |
| | **192,667** | 207,427 | **192,667** | 207,427 |

Unguaranteed residual values of assets leased under finance leases at the end of the reporting period are estimated at nil.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term.

### (c) Margin lending

The Group extends margins to clients for the purpose of trading in quoted securities. These advances are short term in nature and are secured by the underlying securities held in custody by the Group. As at 31 December 2016, these underlying securities were valued at 199,049 (31 December 2015 – 46,603). Provisions are made for the uncovered portion of margins. As at the end of the year, the cumulative provision is 46,739 (31 December 2015 – 56,600).

## 10. INVESTMENTS IN SHUAA MANAGED FUNDS

Investments in SHUAA managed funds consist of the following:

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Held at fair value through profit or loss | **18,501** | 119,694 |
| Associates | **68,391** | 72,357 |
| Available for sale | **15,692** | 9,794 |
| | **102,584** | 201,845 |

## Held at fair value through profit or loss

During the period, the Group redeemed 95,700 from its investments in the SHUAA managed funds.

## Associates

The Group owns 27.0% (31 December 2015 – 27.0%) of SHUAA Hospitality Fund I L.P., a closed ended private equity investment fund registered as an exempted limited partnership in the Cayman Islands. The principal purpose of this fund is to undertake direct or indirect investments in hospitality development projects and existing hospitality properties to be managed by Rotana Hotel Management Corporation LLC in the MENA region. As a consequence of cross investment holdings by this fund the Group indirectly owns 26.3% (31 December 2015 – 26.3%) of SHUAA Saudi Hospitality Fund I, a closed ended investment fund regulated by the Capital Markets Authority in Saudi Arabia. The principal purpose of the SHUAA Saudi Hospitality Fund I, is to achieve long term capital growth through investing in hospitality related real estate in the Kingdom of Saudi Arabia.

The Group's share of these associates' assets, liabilities and loss for the year are as follows:

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Assets | **81,871** | 90,611 |
| Liabilities | **(14,880)** | (12,720) |
| Net assets | **66,991** | 77,891 |
| (Loss)/profit for the year - net | **(7,151)** | 1,611 |

## 11. INVESTMENTS IN THIRD PARTY ASSOCIATES

The Group has investments in third party associates in the following locations:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| U.A.E. | **44,766** | 54,248 |

### City Engineering LLC

The Group owns 40% (31 December 2015 – 40.0%) of City Engineering LLC, a limited liability company based in Sharjah U.A.E. and engaged in contracting activities. The recoverable amount of this asset has been determined based on equity accounting net of an impairment provision. During the year, the Group received 2,800 (31 December 2015 – 4,800) as dividend distribution.

### Septech Holding Limited

Septech Holding Limited is a limited liability company, incorporated in Cayman Islands and based in Sharjah U.A.E., engaged in wastewater, water, marina and related infrastructure products and services. The Group owns 49% (31 December 2015 – 49.0%) of Septech Holding Limited. The recoverable amount of this asset has been determined based on equity accounting. During the period, the Group received 1,960 as dividend distribution.

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Balance at beginning of the year | **54,248** | 68,500 |
| Share of results of associates | **(4,722)** | (9,452) |
| Dividends received | **(4,760)** | (4,800) |
| Balance at end of the year | **44,766** | 54,248 |

The Group's share of these associates' assets, liabilities and revenues for the year are as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Assets | **152,753** | 151,914 |
| Liabilities | **(71,925)** | (78,865) |
| Net assets | **80,828** | 73,049 |
| Revenues | **48,964** | 52,229 |
| Loss for the year - net | **(177)** | (7,245) |

## 12. OTHER INVESTMENTS

Other investments comprise the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Investments held at fair value through profit or loss | 122,903 | 31,200 |
| Investments available for sale | 9,059 | 14,885 |
| | 131,962 | 46,085 |

### (a) Investments held at fair value through profit or loss

Investments held at fair value through profit or loss comprises the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Equity securities | 110,209 | 317 |
| Fixed income securities | 12,113 | 30,160 |
| Fund investments | 581 | 723 |
| | 122,903 | 31,200 |

## Equity securities

During the year, the Group acquired equity stake in a regional bank listed on Bahrain Bourse for AED 93,509.

### (b) Investments available for sale

Investments available for sale comprise the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Equity investments | 16 | 5,430 |
| Unquoted fund investments | 9,043 | 9,455 |
| | 9,059 | 14,885 |

## Equity investments

During the year, the Group exited from one of its investment classified as available for sale.

## 13. PROPERTY AND EQUIPMENT

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Property and equipment | 33,574 | 40,103 |
| Capital work in progress | - | 520 |
| | 33,574 | 40,623 |

## Property and equipment

| | 31 December 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Furniture & leasehold improvements** | **Office equipment, computer & software** | **Motor vehicles** | **Land & buildings** | **Sub-Total** | **Equipment - operating lease** | **Total** |
| **Cost** | | | | | | | |
| Balance at beginning of the year | **23,288** | **45,735** | **1,092** | **18,583** | **88,698** | **4,316** | **93,014** |
| Additions | **1,334** | **4,018** | **-** | **-** | **5,352** | **-** | **5,352** |
| Disposals | **(10)** | **(635)** | **(134)** | **-** | **(779)** | **(1,763)** | **(2,542)** |
| Balance at end of the year | **24,612** | **49,118** | **958** | **18,583** | **93,271** | **2,553** | **95,824** |
| **Accumulated depreciation** | | | | | | | |
| Balance at beginning of the year | **21,259** | **25,478** | **702** | **2,866** | **50,305** | **2,606** | **52,911** |
| Charge for the year | **2,512** | **6,961** | **171** | **465** | **10,109** | **1,454** | **11,563** |
| Reversal of depreciation on disposals | **(8)** | **(579)** | **(130)** | **-** | **(717)** | **(1,507)** | **(2,224)** |
| Balance at end of the year | **23,763** | **31,860** | **743** | **3,331** | **59,697** | **2,553** | **62,250** |
| **Net book value** | | | | | | | |
| Balance at end of the year | **849** | **17,258** | **215** | **15,252** | **33,574** | **-** | **33,574** |

| | 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Furniture & leasehold improvements | Office equipment, computer & software | Motor vehicles | Land & buildings | Sub-Total | Equipment - operating lease* | Total |
| Cost | | | | | | | |
| Balance at beginning of the year | 25,651 | 31,003 | 1,092 | 18,583 | 76,329 | 16,607 | 92,936 |
| Additions | 1,017 | 14,964 | - | - | 15,981 | - | 15,981 |
| Disposals* | (3,380) | (232) | - | - | (3,612) | (12,291) | (15,903) |
| Balance at end of the year | 23,288 | 45,735 | 1,092 | 18,583 | 88,698 | 4,316 | 93,014 |
| Accumulated depreciation | | | | | | | |
| Balance at beginning of the year | 23,113 | 21,413 | 509 | 2,401 | 47,436 | 5,008 | 52,444 |
| Charge for the year | 1,292 | 4,264 | 193 | 465 | 6,214 | 2,514 | 8,728 |
| Reversal of depreciation/impairment on disposals* | (3,146) | (199) | - | - | (3,345) | (4,916) | (8,261) |
| Balance at end of the year | 21,259 | 25,478 | 702 | 2,866 | 50,305 | 2,606 | 52,911 |
| Net book value | | | | | | | |
| Balance at end of the year | 2,029 | 20,257 | 390 | 15,717 | 38,393 | 1,710 | 40,103 |

**During 2015, certain operating lease equipment having a net book value of 7,375 were transferred to receivables and other debit balances as held for sale.*

## 14. DUE TO BANKS

Due to banks comprise borrowings obtained from commercial banks in the ordinary course of business against the Group's established credit lines with those banks.

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Repayable within twelve months | **196,241** | 197,294 |
| Repayable after twelve months | **100,703** | 256,080 |
| | **296,944** | 453,374 |

The Group's banking facilities carry EIBOR/SIBOR based floating interest rates plus a spread ranging between 2% and 4%.

Due to banks includes 225,000 being the balance of a 500,000 syndicated loan facility which is repayable over the next 2 years and is secured by a charge over certain of the Group's assets.

At 31 December 2016, letters of guarantee on behalf of the Group amounting to 63,415 (31 December 2015 – 63,415) had been provided by the Group's bankers. These guarantees are a standard mechanism used within the region's banking structures and financial exchanges to facilitate activities. It is anticipated that no material liabilities will arise from these guarantees.

## 15. PAYABLES AND OTHER CREDIT BALANCES

Payable and other credit balances comprise the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Dividends payable | **33,508** | 33,681 |
| Payable to clients | **36,284** | 35,824 |
| Other financial liabilities | **48,000** | 50,000 |
| Accruals | **26,292** | 17,243 |
| End of service benefits | **13,011** | 14,526 |
| Provisions | **4,548** | 5,078 |
| Payable against unsettled trades | **1,657** | - |
| Supplier payables | **3,912** | 19,054 |
| Other payables | **10,551** | 9,786 |
| | **177,763** | 185,192 |

### Other financial liabilities

This includes 20,000 (31 December 2015 – 50,000) representing amounts received from client under agency arrangement and invested in Sharia-compliant products on behalf of the client.

Also included herein is 28,000 (31 December 2015 – nil) unsecured notes payable due within twelve months (note 29).

## 16. SHARE CAPITAL

Authorised, issued and fully paid share capital comprises 1,065,000,000 shares (31 December 2015 – 1,065,000,000 shares) of UAE Dirham 1.00 per share. Each share carries one vote and the right to receive dividends.

## 17. EMPLOYEE LONG TERM INCENTIVE PLAN SHARES

The following employee long term incentive plan shares were held in trust:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Number of shares | **2,348,004** | 4,743,004 |
| Shares as percentage of total shares in issue | **0.2%** | 0.4% |
| Cost of shares | **5,341** | 10,790 |
| Market value of shares | **3,475** | 1,945 |

During the year, 2,395,000 shares vested. Consequently, the weighted average cost of these shares amounting to 5,449 was transferred to accumulated losses.

## 18. EMPLOYEE LONG TERM INCENTIVE PLAN

During the year, no share rights were issued to new and existing employees. Also, no expense was recognised in respect of share based payments (31 December 2015 – 1,827).

## 19. STATUTORY RESERVE

As required by the UAE Company Law and the Company's articles of association, 10% of the profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. This reserve is not available for distribution except as stipulated by the UAE Company Law.

The Annual General Meeting of the Company held on 16 March 2016 approved the offset of the accumulated losses amounting to 200,861 against the balance of statutory reserve.

## 20. INVESTMENTS REVALUATION RESERVE

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Available for sale investments** | | |
| Balance at beginning of the year | **2,781** | 196 |
| Reserve recycled to income statement on disposal | **(2,781)** | - |
| Net movement in fair values during the year | **(468)** | 2,585 |
| Balance at end of the year | **(468)** | 2,781 |

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available for sale investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

## 21. NON CONTROLLING INTERESTS

Non controlling interests represents the minority shareholders proportionate share in the aggregate value of the net assets of the subsidiaries and the results of these subsidiaries' operations.

## 22. NET FEE AND COMMISSION INCOME

Fee and commission income and expense comprises the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Fee and commission income | **51,774** | 44,061 |
| Fee and commission expense | **(2,994)** | (8,318) |
| | **48,780** | 35,743 |

## 23. LOSSES FROM INVESTMENTS IN SHUAA MANAGED FUNDS

Losses from SHUAA managed funds comprise the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Funds held at fair value through profit or loss | **(5,493)** | (11,714) |
| Associates | **(3,966)** | (293) |
| | **(9,459)** | (12,007) |

## 24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Employee salaries and fringe benefits | **(83,564)** | (82,684) |
| Professional fees | **(10,702)** | (13,316) |
| Administration, technology and communication | **(13,245)** | (13,787) |
| Office rent and related expenses | **(7,416)** | (7,592) |
| Corporate marketing and branding costs | **(2,308)** | (4,284) |
| Other | **(9,590)** | (8,980) |
| | **(126,825)** | (130,643) |

During the year, no charge was recorded towards share based payment transactions (31 December 2015 – (1,827)).

No social contributions (including donations and charities) were made during the year.

As of 31 December 2016, the Group had a total of 173 employees (31 December 2015 – 222 employees) represented by 68 employees in the Parent company (31 December 2015 – 76 employees) and 105 employees in subsidiaries (31 December 2015 – 146 employees).

## 25. PROVISIONS - NET

The Group recognised provisions in respect of the following:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Loans, advances and finance leases - net * | (141,066) | (162,311) |
| Allowances for doubtful receivables and other assets - net | (1,159) | (3,318) |
| Other | (843) | 4,031 |
| | (143,068) | (161,598) |

**Includes provision charge of (142,181) on "loans and advances", (6,345) on "finance leases" and reversal of 7,460 on "margin lending".*

## 26. GOODWILL IMPAIRMENT

As at 31 December 2015, the Group impaired in full goodwill related to Gulf Finance Corporation PJSC (a subsidiary).

## 27. (LOSSES)/GAINS FROM OTHER INVESTMENTS INCLUDING THIRD PARTY ASSOCIATES

(Losses)/gains from other investments are detailed as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Third party associates | (4,722) | (9,452) |
| Other investments | | |
| Held at fair value through profit or loss | 6,536 | 831 |
| Available for sale | 2,353 | (51) |
| Held to maturity | - | 289 |
| | 4,167 | (8,383) |

## 28. LOSS PER SHARE

Basic loss per share have been computed using the net loss attributable to the ordinary equity holders of the Parent (132,457) ((31 December 2015 – (190,256)) divided by the weighted average number of ordinary shares outstanding 1,065,000,000 (31 December 2015 – 1,065,000,000).

Diluted earnings per share as of 31 December 2016 and 31 December 2015 are equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

## 29. RELATED PARTY TRANSACTIONS

The Group enters into transactions with companies and entities that fall within the definition of a related party. Related parties represent significant shareholders, directors and key management personnel of the Group, their close family members and entities controlled, jointly controlled or significantly influenced by such parties. Balances between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidated and are not disclosed in this note.

The nature of significant related party transactions and the amounts involved were as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Receivables and other debit balances | | |
| Associates | - | 206 |
| Other related parties | 27 | 220 |
| Key management personnel | 277 | 140 |
| Investments in SHUAA managed funds | 102,584 | 201,845 |
| | 102,888 | 202,411 |

Advances to key management personnel reflect sums advanced under the staff assistance program available to all employees for which no interest is charged.

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Payables and other credit balances | | |
| Other related parties | 28,000 | |

Transactions with related parties included in the consolidated statement of income are as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Losses from investments in SHUAA managed funds | | |
| Associates | (3,966) | (293) |
| Other related parties | (5,493) | (11,714) |
| Fees and commission income | | |
| Other related parties | 1,597 | 3,249 |
| | (7,862) | (8,758) |

Compensation of the key management personnel is as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Short term employee benefits | (12,661) | (17,605) |
| Termination benefits | (455) | - |
| Share based payments charge | - | (1,827) |
| Total compensation paid to key management personnel | (13,116) | (19,432) |

## 30. SEGMENTAL INFORMATION

For management purposes, the Group is organised into five operating segments, all of which are based on business units.

**Asset Management** manages real estate hospitality funds and projects in KSA and UAE. It also manages investment portfolios and funds in regional equities, fixed income and credit markets. Equities products span across fourteen regional stock exchanges. SHUAA Asset Management offers regional and foreign investors gateways for investment in the GCC and Arab stock markets. SHUAA Asset Management manages conventional equity and Shariah compliant portfolios and investment funds using both active and passive management styles. It also manages private equity funds.

**Investment Banking** provides corporate finance advisory, private placements, public offerings of equity and debt securities, mergers, acquisitions, divestitures, spinoffs, syndications and structured products.

**Capital Markets** provides sales and trading access to global markets for SHUAA's institutional and high net worth client base. Through Capital Markets, clients gain access to global equities and fixed income, primary issues as well as OTC derivatives, and liquidity through an extensive network of local and international counterparties. The Capital Markets Division is complemented by Investment Research which produces sectoral research coverage on listed companies across the GCC with emphasis on the UAE and Saudi equities.

**Lending** activities are conducted by Gulf Finance Corporation PJSC and Gulf Finance Company CJSC, which are primarily engaged in asset-based lending with a primary focus on Small and Medium Enterprises finance.

**Corporate** manages future corporate development and controls all cash and shared service expenses related to the Group. All proprietary investments are incubated within this business segment which also comprises strategy and business development, legal and compliance, finance, treasury, operations, risk management, investor relations, marketing communications and human resources.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

| | 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Asset Management** | **Investment Banking** | **Capital Markets** | **Lending** | **Corporate** | **Total** |
| Interest income | 1,316 | - | 817 | 122,385 | 8,382 | 132,900 |
| Net fee and commission income | 26,078 | 8,387 | 6,189 | 7,728 | 398 | 48,780 |
| Trading income | - | - | 1,555 | - | 31 | 1,586 |
| Losses from investments in SHUAA managed funds - net | - | - | - | - | (9,459) | (9,459) |
| **Total revenues** | **27,394** | **8,387** | **8,561** | **130,113** | **(648)** | **173,807** |
| General and administrative expenses | (18,904) | (6,501) | (15,021) | (53,356) | (33,043) | (126,825) |
| Interest expenses | - | - | - | (28,945) | (31) | (28,976) |
| Depreciation | (112) | - | (2,126) | (7,715) | (1,610) | (11,563) |
| Provisions - net | (49) | - | 201 | (150,102) | 6,882 | (143,068) |
| **Total expenses** | **(19,065)** | **(6,501)** | **(16,946)** | **(240,118)** | **(27,802)** | **(310,432)** |
| **Net profit/(loss) before losses from other investments** | **8,329** | **1,886** | **(8,385)** | **(110,005)** | **(28,450)** | **(136,625)** |
| Gains from other investments including third party associates - net | - | - | - | - | 4,167 | 4,167 |
| **Profit/(loss) for the year** | **8,329** | **1,886** | **(8,385)** | **(110,005)** | **(24,283)** | **(132,458)** |
| **Attributable to:** | | | | | | |
| Equity holders of the Parent | 8,329 | 1,886 | (8,384) | (110,005) | (24,283) | (132,457) |
| Non controlling interests | - | - | (1) | - | - | (1) |
| | **8,329** | **1,886** | **(8,385)** | **(110,005)** | **(24,283)** | **(132,458)** |

| | 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Asset Management** | **Investment Banking** | **Capital Markets** | **Lending** | **Corporate** | **Total** |
| Assets | 103,427 | - | 114,984 | 701,509 | 380,576 | **1,300,496** |
| Liabilities | 7,649 | - | 8,263 | 368,189 | 90,606 | **474,707** |

| | 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Asset Management | Investment Banking | Capital Markets | Lending | Corporate | Total |
| Interest income | 389 | - | 641 | 152,315 | 1,101 | 154,446 |
| Net fee and commission income | 15,566 | 7,145 | 5,572 | 7,411 | 49 | 35,743 |
| Trading income | - | - | (15) | - | - | (15) |
| Gains from investments in SHUAA managed funds - net | - | - | - | - | (12,007) | (12,007) |
| Total revenues | 15,955 | 7,145 | 6,198 | 159,726 | (10,857) | 178,167 |
| | | | | | | |
| General and administrative expenses | (14,420) | (8,991) | (11,658) | (60,982) | (34,592) | (130,643) |
| Interest expenses | - | - | - | (24,963) | - | (24,963) |
| Depreciation | (128) | - | (2,024) | (4,950) | (1,626) | (8,728) |
| Provisions - net | - | (85) | 249 | (154,643) | (7,119) | (161,598) |
| Goodwill impairment charge | - | - | - | (34,111) | - | (34,111) |
| Total expenses | (14,548) | (9,076) | (13,433) | (279,649) | (43,337) | (360,043) |
| | | | | | | |
| Net profit/(loss) before losses from other investments | 1,407 | (1,931) | (7,235) | (119,923) | (54,194) | (181,876) |
| | | | | | | |
| Losses from other investments including third party associates - net | - | - | - | - | (8,383) | (8,383) |
| | | | | | | |
| Profit/(loss) for the year | 1,407 | (1,931) | (7,235) | (119,923) | (62,577) | (190,259) |
| | | | | | | |
| Attributable to: | | | | | | |
| Equity holders of the Parent | 1,407 | (1,931) | (7,232) | (119,923) | (62,577) | (190,256) |
| Non controlling interests | - | - | (3) | - | - | (3) |
| | 1,407 | (1,931) | (7,235) | (119,923) | (62,577) | (190,259) |

| | 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Asset Management | Investment Banking | Capital Markets | Lending | Corporate | Total |
| Assets | 50,487 | 498 | 68,869 | 1,065,673 | 414,527 | 1,600,054 |
| Liabilities | 5,708 | - | 10,848 | 561,809 | 60,201 | 638,566 |

The revenue reported above represents revenue generated from external customers only.

The accounting policies of each of the reportable segments are consistent with those of the Group.

Certain comparative numbers as of 31 December 2015 have been reclassified between segments in order to correspond to the changes in the internal reporting to the management.

## 31. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following outstanding commitments and contingent liabilities:

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Contingent liabilities | **1,899** | 9,644 |

Contingent liabilities comprise of letter of credits and performance guarantees issued which are regarded as unlikely to crystallise as a liability.

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Commitments | | |
| SHUAA managed funds | **67,199** | 67,199 |
| Others | **-** | 414 |
| | **67,199** | 67,613 |

The Group reviewed the contingent liabilities and current legal cases and has sufficiently provided for any future losses that might arise.

## 32. CLIENTS' FUNDS UNDER MANAGEMENT

The Group is licensed as a financial services company regulated by the Central Bank of the United Arab Emirates. At 31 December 2016, clients' assets amounting to 3.2 billion (31 December 2015 – 2.7 billion) were managed in a fiduciary capacity, without risk or recourse to the Group. These funds are off balance sheet items and do not constitute part of the Group's assets.

# Investor Information

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**SHUAA Tickers**

| | |
|---|---|
| DFM: | **SHUAA** |
| Thomson Reuters: | **SHUA.DU** |
| Bloomberg: | **SHUAA UH** |
| ISIN: | **AES000101015** |
| SEDOL1: | **6344832 AE** |

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### Cautionary Statement Regarding Forward-Looking Information

This document contains forward-looking statements. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Forward-looking statements can be identified by words such as: "anticipate," "aspire," "intend," "plan," "goal," "objective," "seek," "believe," "project," "estimate," "expect," "forecast," "strategy," "target," "trend," "future," "likely," "may," "should," "will" and similar references to future periods.

Examples of forward-looking statements include, among others, statements we make regarding:

- Expected operating results, such as revenue growth and earnings.
- Anticipated levels of expenditures and uses of capital.
- Current or future volatility in the capital and credit markets and future market conditions.

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: Our ability to maintain adequate revenue levels and cost control; economic and financial conditions in the global markets and regional markets in which we operate, including volatility in interest rates, commodity and equity prices and the value of assets; the implementation of our strategic initiatives, including our ability to effectively manage the redeployment of our balance sheet and the expansion of our strategic businesses; the reliability of our risk management policies, procedures and methods; continued volatility in the capital or credit markets; geopolitical events; developments and changes in laws and regulations, including increased regulation of the financial services industry through legislative action and revised rules and standards applied by our regulators.

Any forward-looking statement made by us in this document is based only on information currently available to us and speaks only as of the date on which it is made. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. We undertake no obligation to publicly update any forward-looking statement whether as a result of new information, future developments or otherwise.