

SHUAA Capital PSC

INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION AND REVIEW REPORT
FOR THE NINE MONTH PERIOD ENDED
30 SEPTEMBER 2018

Report on Review of Interim Condensed Consolidated Financial Information

The Board of Directors
SHUAA Capital PSC
Dubai
United Arab Emirates

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of **SHUAA Capital PSC and its Subsidiaries** (the “Group”) as of 30 September 2018 and the related interim consolidated statements of income, comprehensive income, cash flows and changes in equity for the nine months period then ended. The Directors of the Group are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’ (“IAS 34”). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

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

Conclusion

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

Deloitte & Touche (M.E.)



Musa Ramahi
Registration No. 872
5 November 2018
Dubai
United Arab Emirates

SHUAA Capital psc**Interim Consolidated Statement of Financial Position**


As at 30 September 2018

(In Thousands of U.A.E. Dirhams)

		30 September 2018	31 December 2017
	<i>Notes</i>	<i>Unaudited</i>	<i>Audited</i>
<u>Assets</u>			
Cash and deposits with banks	5	323,709	148,063
Receivables and other debit balances	6	164,773	70,094
Loans, advances and finance leases	7	542,243	449,163
Investments in SHUAA managed funds	8	95,174	81,651
Investments in other associates	9	146,215	90,427
Other investments	10	501,962	353,026
Property and equipment		34,349	32,187
Goodwill and other intangible assets	25	70,337	-
Total Assets		1,878,762	1,224,611
<u>Liabilities</u>			
Due to banks	11	309,876	125,393
Other financial liabilities	12	104,730	64,730
Payables and other credit balances	13	472,423	135,314
Total Liabilities		887,029	325,437
<u>Equity</u>			
Share capital		1,065,000	1,065,000
Treasury Shares	14	(5,341)	(5,341)
Statutory reserve		7,402	7,402
Accumulated losses		(174,279)	(166,642)
Investment revaluation reserve	15	(32)	(1,000)
Translation reserve		(319)	(279)
Equity attributable to the shareholders of the Parent		892,431	899,140
Non controlling interests		99,302	34
Total Equity		991,733	899,174
Total Liabilities and Equity		1,878,762	1,224,611

The interim condensed consolidated financial information was approved by the Board of Directors on 5 November 2018.


 Jassim Alseddiqui
 Chairman


 Fawad Tariq Khan
 Chief Executive Officer & Board Director

The attached notes 1 to 25 form an integral part of this interim condensed consolidated financial information.

SHUAA Capital psc**Interim Consolidated Statement of Income**

For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

		<i>1 July to 30 September 2018 (3 months) Unaudited</i>	<i>1 January to 30 September 2018 (9 months) Unaudited</i>	<i>1 July to 30 September 2017 (3 months) Unaudited</i>	<i>1 January to 30 September 2017 (9 months) Unaudited</i>
	<i>Notes</i>				
Interest income		12,993	38,692	16,041	55,764
Net fees and commissions		20,384	50,510	15,388	34,354
Trading income		1,308	2,318	1,250	4,980
Gains/(losses) from investments in SHUAA managed funds	16	6,399	13,523	(3,115)	(3,305)
Total revenues		41,084	105,043	29,564	91,793
General and administrative expenses		(29,187)	(88,158)	(21,190)	(61,742)
Interest expense		(6,197)	(16,605)	(4,093)	(15,170)
Depreciation and amortisation		(2,832)	(7,249)	(1,886)	(5,794)
Allowances for impairment - net		(6,252)	(7,930)	13,585	3,506
Total expenses		(44,468)	(119,942)	(13,584)	(79,200)
Net (loss)/profit before gains from other investments		(3,384)	(14,899)	15,980	12,593
Gains from other investments, including investments in other associates	17	19,730	57,534	7,006	47,233
Negative goodwill on acquisition of subsidiary	25	13,883	13,883	-	-
Profit for the period		30,229	56,518	22,986	59,826
Attributable to:					
Equity holders of the Parent		30,134	56,429	22,986	59,826
Non controlling interests		95	89	-	-
		30,229	56,518	22,986	59,826
Earnings per share (in AED)	18	0.028	0.053	0.022	0.056

The attached notes 1 to 25 form an integral part of this interim condensed consolidated financial information.

SHUAA Capital psc**Interim Consolidated Statement of Comprehensive Income**

For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

	<i>1 July to 30 September 2018 (3 months) Unaudited</i>	<i>1 January to 30 September 2018 (9 months) Unaudited</i>	<i>1 July to 30 September 2017 (3 months) Unaudited</i>	<i>1 January to 30 September 2017 (9 months) Unaudited</i>
Profit for the period	30,229	56,518	22,986	59,826
Other comprehensive income/(loss)				
<i>Items that will be reclassified subsequently to profit or loss:</i>				
Net revaluation reserve movement on:				
- investments in SHUAA managed funds	-	-	(81)	(899)
- other investments	(33)	(33)	-	-
Exchange differences on translation of foreign operations	52	(40)	1	(23)
Other comprehensive income/(loss) for the period	19	(73)	(80)	(922)
Total comprehensive income for the period	30,248	56,445	22,906	58,904
Attributable to:				
Equity holders of the Parent	30,154	56,357	22,906	58,904
Non controlling interests	94	88	-	-
	30,248	56,445	22,906	58,904

The attached notes 1 to 25 form an integral part of this interim condensed consolidated financial information.

SHUAA Capital psc**Interim Consolidated Statement of Cash Flows**

For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

	<i>Notes</i>	<i>1 January to 30 September 2018 (9 months) Unaudited</i>	<i>1 January to 30 September 2017 (9 months) Unaudited</i>
Cash flows from operating activities			
Profit for the period		56,518	59,826
Adjustments for:			
Depreciation and amortisation		7,249	5,794
(Gains)/losses on investments in SHUAA managed funds		(13,523)	3,305
Gains from other investments, including other associates		(57,534)	(47,233)
Allowances for impairment - net		7,930	(3,506)
Negative goodwill on acquisition of subsidiary		(13,883)	-
Operating cash flows before changes in operating assets and liabilities		(13,243)	18,186
Changes in operating assets and liabilities:			
Increase in receivables and other debit balances		(32,467)	(25,061)
(Increase)/decrease in loans, advances and finance leases		(50,677)	121,140
Increase/(decrease) in payables and other credit balances		19,348	(49,853)
Net acquisition of SHUAA managed funds		-	(1,219)
Net cash (used in)/generated from operating activities		(77,039)	63,193
Cash flows from investing activities			
Net proceeds from purchase of other investments		(42,854)	(94,876)
Net cash on acquisition of subsidiaries	25	65,763	-
Dividend distribution from associates		4,900	800
Net purchase of property and equipment		(2,974)	(354)
Net cash generated from/(used in) investing activities		24,835	(94,430)
Cash flows from financing activities			
Increase/(decrease) in due to banks		159,353	(148,665)
Increase in other financial liabilities	12	40,000	-
Net cash generated from/(used in) financing activities		199,353	(148,665)
Net increase/(decrease) in cash and cash equivalents		147,149	(179,902)
Foreign currency translation		(40)	(23)
Cash and cash equivalents at beginning of the period		112,188	316,324
Cash and cash equivalents at end of the period	5	259,297	136,399

The attached notes 1 to 25 form an integral part of this interim condensed consolidated financial information.

SHUAA Capital psc

Interim Consolidated Statement of Changes In Equity

For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

	Equity attributable to shareholders of the Parent							Non controlling interests	Total
	Share capital	Treasury shares	Employee long term incentive plan shares	Statutory reserve	Accumulated losses	Investment revaluation reserve	Translation reserve		
Balance as of 1 January 2017 <i>(Audited)</i>	1,065,000	-	(5,341)	-	(233,256)	(468)	(180)	34	825,789
Total comprehensive income/(loss) for the period	-	-	-	-	59,826	(899)	(23)	-	58,904
Balance as of 30 September 2017 <i>(Unaudited)</i>	1,065,000	-	(5,341)	-	(173,430)	(1,367)	(203)	34	884,693

	Equity attributable to shareholders of the Parent							Non controlling interests	Total
	Share capital	Treasury shares	Employee long term incentive plan shares	Statutory reserve	Accumulated losses	Investment revaluation reserve	Translation reserve		
Balance as of 1 January 2018 <i>(Audited)</i>	1,065,000	-	(5,341)	7,402	(166,642)	(1,000)	(279)	34	899,174
Impact of adopting IFRS 9 as of 1 January 2018 (Note 3)	-	-	-	-	(42,766)	1,000	-	-	(41,766)
Restated balance as of 1 January 2018	1,065,000	-	(5,341)	7,402	(209,408)	-	(279)	34	857,408
Total comprehensive income/(loss) for the period	-	-	-	-	56,429	(32)	(40)	88	56,445
Dividend declared (Note 18)	-	-	-	-	(21,300)	-	-	-	(21,300)
Transfer to Treasury shares (Note 14)	-	(5,341)	5,341	-	-	-	-	-	-
Non controlling interest arising from acquisition of subsidiary	-	-	-	-	-	-	-	99,180	99,180
Balance as of 30 September 2018 <i>(Unaudited)</i>	1,065,000	(5,341)	-	7,402	(174,279)	(32)	(319)	99,302	991,733

The attached notes 1 to 25 form an integral part of this interim condensed consolidated financial information.

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

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 and in accordance with the UAE Federal Law No. 2 of 2015 (as amended) (“Companies Law”). 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 the Central Bank Board of Directors Resolution 164/8/94 and as a financial and monetary intermediary pursuant to the Central Bank Board of Directors Resolution 126/5/95 and is licensed by the Emirates Securities and Commodities Authority to conduct investment management, financial consultation and financial analysis activities.

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 the 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 30 September 2018 are as follows:

Name	Country of incorporation	Principal activities	Holding 30 September 2018	Holding 31 December 2017
Gulf Finance Corporation PJSC	United Arab Emirates	Financing	100.0%	100.0%
Gulf Finance Corporation CJSC	Saudi Arabia	Financing	100.0%	100.0%
SHUAA Capital International Limited	United Arab Emirates	Market Making / Liquidity Provider	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%
Integrated Securities LLC (Note – 25)	United Arab Emirates	Brokerage	100.0%	-
Integrated Capital PJSC (Note – 25)	United Arab Emirates	Financial services	96.0%	-
Amwal International Investment Company KSCP (Note – 25)	Kuwait	Financial services	87.2%	-

* As part of the plan to address future performance the Group management decided to initiate closure of this subsidiary. As a result all assets and liabilities will be transferred to the Parent Company and the business of the subsidiary will be managed through newly acquired subsidiary Integrated Securities LLC.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group has been prepared in accordance with IAS 34, *Interim Financial Reporting*.

The interim condensed consolidated financial information is presented in thousands of United Arab Emirates Dirhams since that is the country in which the Parent is domiciled and the majority of the Group’s business is transacted.

The interim condensed consolidated financial information has been prepared on the historical cost convention as modified for the measurement at fair value of certain financial instruments.

The interim condensed consolidated financial information does not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group’s audited consolidated financial statements as at and for the year ended 31 December 2017. In addition, results for the nine months period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The Group’s financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2017 except for the application of IFRS 9.

All significant inter-group company balances, income and expenses are eliminated on consolidation. No income of a seasonal nature was recorded in the interim consolidated statement of income for the nine month periods ended 30 September 2018 and 30 September 2017.

(In Thousands of U.A.E. Dirhams)

3. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The Group has consistently applied the accounting policies as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following accounting policies which are applicable from 1 January 2018:

3.1 Changes in accounting policies

Relevant new and revised IFRS applied with no material effect on the interim condensed consolidated financial information

The following new and revised IFRS have been adopted in this condensed consolidated interim financial information. The application of the new and revised standards did not have any material impact on the amounts reported for the current and prior periods.

	<i><u>Effective for annual periods beginning on or after</u></i>
<i>Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28</i>	<i>1 January 2018</i>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<i>1 January 2018</i>
<i>IFRIC 22 Foreign Currency Transactions and Advance Consideration</i>	<i>1 January 2018</i>
<i>Amendments to IFRS 2 Share Based Payment</i>	<i>1 January 2018</i>
<i>Amendments to IAS 40 Investment Property</i>	<i>1 January 2018</i>

Relevant new and revised IFRS applied with material effect on the interim condensed consolidated financial information

(a) IFRS 9 Financial Instruments

The Group has adopted IFRS 9 *Financial Instruments* as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the interim condensed consolidated financial information. The Group did not early adopt IFRS 9.

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognised in opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have been only applied to the current period.

(i) Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(In Thousands of U.A.E. Dirhams)

3. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS - continued

3.1 Changes in accounting policies - continued

Financial liabilities

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rate.

(In Thousands of U.A.E. Dirhams)

3. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS - continued

3.1 Changes in accounting policies - continued

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

(ii) Impairment

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- loans and advances and other financial assets including finance leases;
- financial assets that are debt investments;
- financial guarantee contracts.

No impairment loss is recognised on equity investments.

Measurement of ECL

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECL.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the life-time expected credit losses (LTECL).

Stage 3: Loans considered credit-impaired. The group records an allowance for the LTECL.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information. Details of these statistical parameters/inputs are as follows:

PD - The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

(In Thousands of U.A.E. Dirhams)

3. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS - continued

3.1 Changes in accounting policies - continued

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iii) Financial guarantee contracts

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable. Financial guarantees issued are initially measured at fair value and their initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

(iv) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore not comparable to the information presented for period under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation or previous designations of certain financial assets and financial liabilities as measured at FVTPL.

(b) IFRS 7 Financial Instruments - Disclosures

IFRS 7 *Financial Instruments: Disclosures*, which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Group together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 3.3, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 3.2.

(In Thousands of U.A.E. Dirhams)

3. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS - continued

3.2 Changes in accounting estimates and judgements

The preparation of interim condensed consolidated financial information requires management to make judgement, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The Group has consistently applied the estimates and judgements as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following estimates and judgements which are applicable from 1 January 2018.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognised in the interim condensed consolidated financial information of the period ended 30 June 2018 pertain to the changes introduced as a result of adoption of IFRS 9 which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- Calculation of expected credit loss: changes to the assumptions and estimation uncertainties that have a significant impact on expected credit losses for the period ended 30 September 2018 pertain to the changes introduced as a result of adoption of IFRS 9. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

Our assessment of significant increases in credit risk will be performed at least quarterly for exposures based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

- We have established thresholds for significant increases in credit risk based on movement in DPDs (Level of Delinquency) relative to initial recognition.
- Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
- IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgement.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

3. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS - continued

3.2 Changes in accounting estimates and judgements - continued

Our base case scenario will be based on macroeconomic forecasts published. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

3.3 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

Except for the financial information captions listed in the table below, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 as at 1 January 2018.

	<i>Original classification as per IAS 39</i>	<i>New classification as per IFRS 9</i>	<i>Original carrying amount</i>	<i>Reclassification</i>	<i>Remeasurement</i>	<i>New carrying amount</i>
Financial assets						
<i>Investments in SHUAA managed funds</i>						
Reclassification of investment securities from available for sale to FVTPL	AFS	FVTPL	15,160	-	-	15,160
<i>Other investments</i>						
Reclassification of investment securities from available for sale to FVTPL	AFS	FVTPL	9,043	-	-	9,043
<i>Loans, advances and finance leases</i>						
Remeasurement of impairment under IFRS 9	Amortised cost	Amortised cost	449,163	-	(40,766)	408,397
<i>Receivables and other debit balances</i>						
Remeasurement of impairment under IFRS 9	Amortised cost	Amortised cost	70,094	-	(1,000)	69,094

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

4. 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:

	<i>30 September 2018</i>			
	<i>Unaudited</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investments in SHUAA managed funds				
Held at fair value through profit or loss	-	16,436	-	16,436
Other investments				
Held at fair value through profit or loss	235,437	101,846	54,003	391,286
Held at fair value through OCI	-	-	110,676	110,676
Receivables and other debit balances				
Derivative instrument	-	5,137	-	5,137
	235,437	123,419	164,679	523,535
<i>Financial liabilities</i>				
Fair value through profit or loss	(11,228)	-	-	(11,228)

	<i>31 December 2017</i>			
	<i>Audited</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investments in SHUAA managed funds				
Available for sale	-	15,160	-	15,160
Other investments				
Held at fair value through profit or loss	258,434	85,170	379	343,983
Available for sale	-	31	9,012	9,043
Receivable and other debit balances				
Derivative instruments	-	3,745	-	3,745
	258,434	104,106	9,391	371,931
<i>Financial liabilities</i>				
Held at fair value through profit or loss	(891)	-	-	(891)

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.

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

4. FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

Held at fair value through other comprehensive income / available for sale

Held at fair value through other comprehensive income / 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 period, there were no transfers between levels 1 through 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:

<i>1 January to 30 September 2018 (9 months) Unaudited</i>							
	<i>Balance at 31 December 2017</i>	<i>Impact of IFRS 9 at 1 January 2018</i>	<i>Balance at 1 January 2018</i>	<i>Acquired on acquisition of subsidiary</i>	<i>Gain/(loss) through P&L</i>	<i>Gain/(loss) through OCI</i>	<i>Balance at 30 September 2018</i>
Other investments							
Held at FVTPL	379	9,012	9,391	33,719	10,893	-	54,003
AFS / FVOCI	9,012	(9,012)	-	110,709	-	(33)	110,676
	9,391	-	9,391	144,428	10,893	(33)	164,679

<i>1 January to 30 September 2017 (9 months) Unaudited</i>							
	<i>Balance at 1 January 2017</i>	<i>Gain/(loss) through P&L</i>	<i>Gain/(loss) through OCI</i>	<i>Purchases</i>	<i>Sales</i>	<i>Transfers from/(to) levels 1 & 2</i>	<i>Balance at 30 September 2017</i>
Other investments							
Held at FVTPL	379	-	-	-	-	-	379
Available for sale	9,043	(30)	-	-	-	-	9,013
	9,422	(30)	-	-	-	-	9,392

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

	<i>1 January to 30 September 2018 (9 months) Unaudited</i>	<i>1 January to 30 September 2017 (9 months) Unaudited</i>
Other investments		
Unrealised gains/(losses)	10,893	(30)

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:

	<i>30 September 2018 Unaudited</i>		<i>30 September 2017 Unaudited</i>	
	<i>Carrying amount</i>	<i>Effect of reasonably possible alternative assumptions</i>	<i>Carrying amount</i>	<i>Effect of reasonably possible alternative assumptions</i>
Other investments				
Held at fair value through profit or loss	54,003	10,914	379	95
FVOCI / Available for sale	110,676	22,135	9,013	1,802
	164,679	33,049	9,392	1,897

(In Thousands of U.A.E. Dirhams)

4. FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

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.

5. CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks include deposits of 64,412 (31 December 2017: 35,875) 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 interim consolidated statement of cash flows, cash and cash equivalents are stated net of these deposits.

6. RECEIVABLES AND OTHER DEBIT BALANCES

Receivable and other debit balances comprise the following:

	<i>30 September 2018 Unaudited</i>	<i>31 December 2017 Audited</i>
Amounts due from managed funds	43,246	24,752
Advances and deposits	15,744	10,926
Client related receivables	49,589	7,115
Asset held for sale	7,948	6,658
Receivable against unsettled trades	13,415	5,045
Derivative financial asset	5,137	3,745
Prepayments	8,659	5,456
Reverse repurchase agreements (a)	5,253	-
Interest receivable	4,125	1,439
Other	11,657	4,958
	<u>164,773</u>	<u>70,094</u>

a) Reverse repurchase agreements

Represents assets arising out of repurchase agreements entered with financial institutions. Securities bought subject to these arrangements remains off-balance sheet and the deposit paid to the counterparty is included as asset.

7. LOANS, ADVANCES AND FINANCE LEASES

Loans, advances and finance leases comprise the following:

	<i>30 September 2018 Unaudited</i>	<i>31 December 2017 Audited</i>
Loans and advances	249,133	292,064
Finance leases	106,266	121,960
Margin lending	186,844	35,139
	<u>542,243</u>	<u>449,163</u>

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

7. LOANS, ADVANCES AND FINANCE LEASES - continued

(a) Loans and advances

	30 September 2018 Unaudited	31 December 2017 Audited
Total loans and advances	468,302	426,746
Less: Cumulative allowance for impairment*	(136,348)	(94,258)
Less: Interest in suspense	(82,821)	(40,424)
	249,133	292,064

*Includes (35,605) as impact on adoption of IFRS 9 effective 1 January 2019.

(b) Finance Leases

	30 September 2018 Unaudited	31 December 2017 Audited
Current finance lease receivables	71,862	97,897
Non-current finance lease receivables	57,966	40,077
Less: Allowances for uncollectible lease payments*	(23,562)	(16,014)
	106,266	121,960

*Includes AED (5,161) as impact on adoption of IFRS 9 effective 1 January 2019.

(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 30 September 2018, these underlying securities were valued at 469,439 (31 December 2017: 185,935). Provisions are made for the uncovered portion of margins. As at the end of the period, the cumulative provision is 50,417 (31 December 2017: 47,790).

Some of the underlying securities in an amount of 10,309 (31 December 2017: nil) are pledged under repurchase agreements with financial institutions.

8. INVESTMENTS IN SHUAA MANAGED FUNDS

Investments in SHUAA managed funds consist of the following:

	30 September 2018 Unaudited	31 December 2017 Audited
Associates	78,738	66,491
FVTPL	16,436	-
Available for sale	-	15,160
	95,174	81,651

Associates

The Group owns 27.0% (31 December 2017: 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 own 26.3% (31 December 2017: 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 Saudi Arabia.

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

9. INVESTMENTS IN OTHER ASSOCIATES

The Group has the following investments in other associates:

	30 September 2018 Unaudited	31 December 2017 Audited
U.A.E.	107,246	90,427
G.C.C	38,969	-
	146,215	90,427

City Engineering LLC

City Engineering LLC is a limited liability company based in Sharjah U.A.E. and engaged in contracting activities.

Septeck Holding Limited

Septeck 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.

ADCORP Limited

ADCORP Limited is a private company limited by shares incorporated in Abu Dhabi Global Market (ADGM) and authorized as an Islamic Financial Institution by Financial Services Regulatory Authority of ADGM.

Khaleeji Commercial Bank B.S.C

Khaleeji Commercial Bank B.S.C ("KHCB") is a public shareholding company incorporated in Kingdom of Bahrain and is licensed by Central Bank of Bahrain to operate as Islamic retail bank.

10. OTHER INVESTMENTS

Other investments comprise of the following:

	30 September 2018 Unaudited	31 December 2017 Audited
Investments held at fair value through profit or loss	391,286	343,983
Investments held at fair value through other comprehensive income	110,676	-
Investments available for sale (Note 3.3)	-	9,043
	501,962	353,026

a) Investments held at fair value through profit or loss

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

	30 September 2018 Unaudited	31 December 2017 Audited
Equity securities	109,846	173,545
Fixed income securities	128,560	101,060
Fund investments	152,880	69,378
	391,286	343,983

Included in fixed income securities is an amount of 10,866 (31 December 2017: nil), pledged under repurchase agreements with financial institutions.

Included in fund investments is an amount of 18,021 representing Group's direct investment in a fund managed by Abraaj. In addition, the Group's off balance sheet exposure to this fund held on behalf of its clients is 14,418.

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

11. DUE TO BANKS

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

	30 September 2018 Unaudited	31 December 2017 Audited
Repayable within twelve months	64,084	125,095
Repayable after twelve months	245,792	298
	309,876	125,393

The Group's banking facilities carry EIBOR/SIBOR based interest/profit rates plus a spread ranging between 2% and 5%. The Group's banking facilities are secured by a charge over certain of the Group's assets.

At 30 September 2018, letters of guarantee on behalf of the Group amounting to 280,430 (31 December 2017: 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.

12. OTHER FINANCIAL LIABILITIES

Other financial liabilities mainly consist of unsecured investment notes payable carrying interest rate ranging between 5% to 8% and having maturity as follows:

	30 September 2018 Unaudited	31 December 2017 Audited
Repayable within twelve months	68,000	28,000
Repayable after twelve months	36,730	36,730
	104,730	64,730

13. PAYABLES AND OTHER CREDIT BALANCES

Payable and other credit balances comprise the following:

	30 September 2018 Unaudited	31 December 2017 Audited
Payable against unsettled trades	4,747	41,091
Payable to clients	244,533	30,392
Dividends payable	54,788	33,491
Repurchase agreements (a)	17,116	-
FVTPL liabilities	11,329	929
Supplier payables	4,596	539
Acquisition of subsidiaries (Note 25)	94,876	-
End of service benefits	15,824	9,695
Accruals	10,982	12,471
Provisions	1,318	559
Other payables	12,314	6,147
	472,423	135,314

b) Repurchase agreements

Represents liabilities arising out of repurchase agreements entered with financial institutions. Securities sold subject to repurchase agreements are disclosed as pledged assets (refer Note 10 and Note 7c) when the transferee has the right by contract or custom to sell or re-pledge the collateral; the deposits received from the counterparty is included as liability.

SHUAA Capital psc**Notes to the Interim Condensed Consolidated Financial Information**
For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

14. TREASURY SHARES

	30 September 2018 Unaudited	31 December 2017 Audited
Number of shares	2,348,004	2,348,004
Shares as percentage of total shares in issue	0.2%	0.2%
Cost of shares	5,341	5,341
Market value of shares	2,348	2,841

Effective 31 December 2017, all remaining options related to Employee Long Term Incentive Plan lapsed. Accordingly, during the period, these shares were transferred back to the Company. Further, subsequent to the period end, the Company acquired 15,287,037 own shares for the total cost of 16,411.

15. INVESTMENT REVALUATION RESERVE

	1 January to 30 September 2018 (9 months) Unaudited	1 January to 30 September 2017 (9 months) Unaudited
Available for sale investments		
Balance at beginning of the period	(1,000)	(468)
Impact of adopting IFRS 9 as of 1 January 2018	1,000	-
Net movement in fair values during the period	(32)	(899)
Balance at end of the period	(32)	(1,367)

16. GAINS / (LOSSES) FROM INVESTMENTS IN SHUAA MANAGED FUNDS

Gains and losses from investments in SHUAA managed funds comprise of the following:

	1 January to 30 September 2018 (9 months) Unaudited	1 January to 30 September 2017 (9 months) Unaudited
Investments held at FVTPL	1,276	280
Associates	12,247	(3,585)
	13,523	(3,305)

17. GAINS FROM OTHER INVESTMENTS, INCLUDING OTHER ASSOCIATES

Gains and losses from other investments, including other associates are detailed as follows:

	1 January to 30 September 2018 (9 months) Unaudited	1 January to 30 September 2017 (9 months) Unaudited
Other associates	17,420	16,587
Other investments		
Held at FVTPL	40,114	30,676
FVOCI / Available for sale	-	(30)
	57,534	47,233

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

18. EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit attributable to the equity holders of the Parent 56,429 (30 September 2017: 59,826) divided by the weighted average number of ordinary shares outstanding 1,062,651,996 (30 September 2017: 1,065,000,000).

Diluted earnings per share as of 30 September 2018 and 30 September 2017 are equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

On 13 September 2018, distribution of an interim dividend for the year 2018 was approved by General Assembly of the Company at the rate of AED 0.02 per share. The approved interim dividend was paid out subsequent to the period end.

19. 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.

The nature of significant related party transactions and the amounts due to/from were as follows:

	30 September 2018 Unaudited	31 December 2017 Audited
Receivables and other debit balances		
Associates	12,698	19,714
Key management personnel	42	108
Other related parties	6,550	4,219
Loans and advances		
Associates	11,429	20,245
Other related parties	17,902	1,326
Investments in SHUAA managed funds	78,738	66,491
Other investments	305,282	219,180

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

	30 September 2018 Unaudited	31 December 2017 Audited
Payables and other financial liabilities		
Other related parties	175,421	65,181

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

	1 January to 30 September 2018 (9 months) Unaudited	1 January to 30 September 2017 (9 months) Unaudited
Gains/(losses) from investments in SHUAA managed funds		
Associates and other related parties	12,247	(3,305)
Gains from other investments		
Associates and other related parties	38,023	15,587
Fees, commission and other income		
Associates and other related parties	4,736	2,402
Interest expense		
Other related parties	(7,295)	(1,675)

(In Thousands of U.A.E. Dirhams)

19. RELATED PARTY TRANSACTIONS - continued

Compensation of the key management personnel is as follows:

	<i>1 January to 30 September 2018 (9 months) Unaudited</i>	<i>1 January to 30 September 2017 (9 months) Unaudited</i>
Short term employee benefits	(7,891)	(11,134)

20. 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. Asset Management offers regional and foreign investors gateways for investment in the GCC and Arab stock markets. 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 Group'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 Corporation 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, 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.

The following tables present consolidated financial information regarding the Group's business segments.

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

20. SEGMENTAL INFORMATION - continued

1 January 2018 to 30 September 2018 (9 months) Unaudited						
	Asset Management	Investment Banking	Capital Markets	Lending	Corporate	Total
Interest income	548	-	6,605	27,022	4,517	38,692
Net fees and commissions	30,424	1,653	15,052	1,274	2,107	50,510
Trading income	-	-	2,318	-	-	2,318
Gains from investments in SHUAA managed funds	1,276	-	-	-	12,247	13,523
Total revenues	32,248	1,653	23,975	28,296	18,871	105,043
General & administrative expenses	(14,997)	(2,909)	(22,142)	(24,171)	(23,939)	(88,158)
Interest expenses	-	-	(792)	(6,468)	(9,345)	(16,605)
Depreciation	(78)	-	(3,152)	(2,812)	(1,207)	(7,249)
Allowances for impairment - net	-	-	-	(7,125)	(805)	(7,930)
Total expenses	(15,075)	(2,909)	(26,086)	(40,576)	(35,296)	(119,942)
Net profit/(loss) before (losses)/gains from other investments	17,173	(1,256)	(2,111)	(12,280)	(16,425)	(14,899)
(Losses)/gains from other investments	-	-	(20)	16,831	40,723	57,534
Negative goodwill on acquisition of subsidiary	-	-	13,883	-	-	13,883
Profit/(loss) for the period	17,173	(1,256)	11,752	4,551	24,298	56,518
Attributable to:						
Equity holders of the Parent	17,173	(1,256)	11,753	4,551	24,208	56,429
Non controlling interests	-	-	(1)	-	90	89
	17,173	(1,256)	11,752	4,551	24,298	56,518

30 September 2018 Unaudited						
	Asset Management	Investment Banking	Capital Markets	Lending	Corporate	Total
Assets	83,147	1,077	702,283	505,656	587,099	1,879,262
Liabilities	6,394	-	190,539	179,275	510,821	887,029

SHUAA Capital psc**Notes to the Interim Condensed Consolidated Financial Information**
For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

20. SEGMENTAL INFORMATION - continued

	1 January 2017 to 30 September 2017 (9 months) Unaudited					
	Asset Management	Investment Banking	Capital Markets	Lending	Corporate	Total
Interest income	872	-	1,409	50,969	2,514	55,764
Net fees and commissions	20,904	3,717	5,588	3,794	351	34,354
Trading income	-	-	4,980	-	-	4,980
Losses from investments in SHUAA managed funds	-	-	-	-	(3,305)	(3,305)
Total revenues	21,776	3,717	11,977	54,763	(440)	91,793
General & administrative expenses	(12,770)	(4,167)	(13,013)	(18,405)	(13,387)	(61,742)
Interest expenses	-	-	-	(13,494)	(1,676)	(15,170)
Depreciation	(73)	-	(1,755)	(3,059)	(907)	(5,794)
Allowances for impairment - net	-	(202)	375	949	2,384	3,506
Total expenses	(12,843)	(4,369)	(14,393)	(34,009)	(13,586)	(79,200)
Net profit/(loss) before gains/(losses) from other investments	8,933	(652)	(2,416)	20,754	(14,026)	12,593
(Losses)/gains from other investments	-	-	-	(6,333)	53,566	47,233
Profit/(loss) for the period	8,933	(652)	(2,416)	14,421	39,540	59,826
Attributable to:						
Equity holders of the Parent	8,933	(652)	(2,416)	14,421	39,540	59,826
Non controlling interests	-	-	-	-	-	-
	8,933	(652)	(2,416)	14,421	39,540	59,826

	31 December 2017 Audited					
	Asset Management	Investment Banking	Capital Markets	Lending	Corporate	Total
Assets	65,563	1,143	144,810	532,718	480,377	1,224,611
Liabilities	7,875	-	3,156	177,441	136,965	325,437

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.

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

21. GEOGRAPHICAL SEGMENTATION

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	237,394	58,068	19,471	517	5,390	2,869	323,709
Receivables and other debit balances	66,967	92,177	5,529	-	90	10	164,773
Loans, advances and finance leases	355,347	166,928	19,877	-	-	91	542,243
Investments in SHUAA managed funds	-	95,174	-	-	-	-	95,174
Investments in third party associates	107,246	38,969	-	-	-	-	146,215
Other investments	392,709	47,545	7,999	24,718	27,809	1,182	501,962
Property and equipment	25,743	6,990	1,616	-	-	-	34,349
Goodwill and other intangibles	54,417	7,191	1,035	-	7,694	-	70,337
Total Assets – 30 September 2018 (Unaudited)	1,239,823	513,042	55,527	25,235	40,983	4,152	1,878,762
Total Assets – 31 December 2017 (Audited)	755,379	417,060	46,204	513	4,645	810	1,224,611

22. MATURITY PROFILE

The maturity profile of assets and liabilities as of 30 September 2018, determined on the basis of the remaining contractual maturity is as follows. Where assets have no contractual maturity date (*), management have made an estimate of the maturity date based on the liquidity of the asset and their intention.

	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	259,297	7,499	266,796	56,913	-	323,709
Receivables and other debit balances	83,358	72,554	155,912	8,861	-	164,773
Loans, advances and finance leases	151,728	265,239	416,967	125,276	-	542,243
Investments in SHUAA managed funds*	-	-	-	95,174	-	95,174
Investments in third party associates*	-	-	-	146,215	-	146,215
Other investments*	196,450	82,580	279,030	222,932	-	501,962
Property and equipment*	-	-	-	34,349	-	34,349
Goodwill and other intangible assets*	-	-	-	70,337	-	70,337
Total Assets	690,833	427,872	1,118,705	760,057	-	1,878,762
Due to banks	28,007	36,078	64,085	245,791	-	309,876
Other financial liabilities	290,489	132,872	423,361	49,062	-	472,423
Payables and other credit balances	68,000	-	68,000	36,730	-	104,730
Equity	-	-	-	-	991,733	991,733
Total Liabilities and Equity	386,496	168,950	555,446	331,583	991,733	1,878,762
Net liquidity gap	304,337	258,922	563,259	428,474	(991,733)	-
Cumulative liquidity gap – 30 September 2018 (Unaudited)	304,337	563,259	563,259	991,733	-	-
Cumulative liquidity gap – 31 December 2017 (Audited)	281,338	498,415	498,415	899,174	-	-

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

23. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following outstanding commitments and contingent liabilities:

	30 September 2018 Unaudited	31 December 2017 Audited
Contingent liabilities		
Performance guarantees	7,553	1,939
Other	16,627	-
	24,180	1,939

Performance guarantees issued are regarded as unlikely to crystallise as a liability.

Other contingent liability consist of zakat / tax claimed from the Group by tax authorities in the Kingdom of Saudi Arabia for the years 2008-2013. The Group has filed an appeal against this claim and Group's management and tax advisors believe that the outcome of the claim will be in favor of the Group. Accordingly, the Group has not recorded any liability related to the aforementioned.

	30 September 2018 Unaudited	31 December 2017 Audited
Commitments		
SHUAA managed funds	67,199	67,199

24. CLIENTS' FUNDS UNDER MANAGEMENT

The Group is licensed as a financial services company regulated by the Central Bank of the United Arab Emirates. As at 30 September 2018, clients' assets amounting to 4.7 billion (31 December 2017: 3.8 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.

25. BUSINESS COMBINATIONS

Accounting policy

Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

(In Thousands of U.A.E. Dirhams)

25. BUSINESS COMBINATIONS - continued

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, contingent liabilities and contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is provided on a straight-line bases over the intangible asset's estimated useful lives over the following periods:

Customer Relationships

7 years

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

25. BUSINESS COMBINATIONS - continued

Business combinations

Details of subsidiaries acquired by the Group during the period are as follows;

Integrated Securities LLC and Integrated Capital PJSC

a) Details of subsidiaries acquired by the Group during the period are as follows:

	Principal activity	Effective date of acquisition	Proportion of voting equity interest acquired
Integrated Securities LLC	Securities Brokerage	1 May 2018	100%
Integrated Capital PJSC	Financial Services	1 May 2018	96%

These entities were acquired so as to continue the expansion of the Group's capital market activities.

b) Consideration transferred:

	1 May 2018
Cash	57,706
Deferred cash consideration due within 12 months of acquisition date	94,876
Non controlling interest acquired	1,629
Total	154,211

c) Acquisition-related costs have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the current year.

d) Fair value of identifiable assets acquired and liabilities assumed at the date of acquisition;

	1 May 2018
<u>Assets</u>	
Cash and deposits with banks	171,321
Receivables and other debit balances	12,534
Loans, advances and finance leases	90,069
Other investments	37,578
Property and equipment	2,379
Intangible assets (g)	10,460
<u>Liabilities</u>	
Due to banks	(25,130)
Payables and other credit balances	(189,580)
	109,631

e) The fair value of the assets and liabilities have been determined by the management.

f) Goodwill arising on acquisition has been allocated to Integrated Securities LLC. The fair value of net assets of Integrated Capital PJSC on the acquisition date were assessed to be equal to the consideration paid.

	1 May 2018
Total consideration	154,211
Less: Fair value of identifiable net assets acquired	(109,631)
Goodwill arising on acquisition	44,580

SHUAA Capital psc

Notes to the Interim Condensed Consolidated Financial Information For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

25. BUSINESS COMBINATIONS - continued

- g) Goodwill arising on the acquisition of Integrated Securities LLC excludes intangible asset of customer relationships valued at 10,460 which is recognised separately from goodwill as intangible assets as it meets the recognition criteria for identifiable intangible asset.
- h) Net cash inflow on acquisition of subsidiaries:

	1 May 2018
Consideration paid in cash till date	(57,706)
Cash and bank balances acquired	171,321
	<u>113,615</u>

- i) Impact of acquisitions on the results of the Group:

Profit amounting to 4,331 included in the profit of the Group. Revenue of the Group for nine month period ended 30 September 2018 includes revenue of 9,815 for the period from 1 May 2018 (date of acquisition) to 30 September 2018.

Had this business combination been effected at 1 January 2018, the revenue of the Group would have been higher by 5,905 and the profit for the period from continuing operations would have been higher by 112.

Amwal International Investment Company KSCP

- a) Details of subsidiary acquired by the Group during the period are as follows:

	Principal activity	Effective date of acquisition	Proportion of voting equity interest acquired
Amwal International Investment Company KSCP ('Amwal')	Financial Services	30 Sep 2018	87.2%

This entity was acquired so as to continue the expansion of the Group's capital market activities.

- b) Consideration transferred:

	30 Sep 2018
Cash	100,833
Fair value of the previously held interest	23,192
Non controlling interest acquired	20,211
Total	<u>144,236</u>

- c) Acquisition-related costs have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the current year.

Notes to the Interim Condensed Consolidated Financial Information
 For the period ended 30 September 2018

(In Thousands of U.A.E. Dirhams)

25. BUSINESS COMBINATIONS - continued

- d) Fair value of identifiable assets acquired and liabilities assumed at the date of acquisition;

	30 Sep 2018
<u>Assets</u>	
Cash and deposits with banks	52,981
Receivables and other debit balances	51,173
Loans, advances and finance leases	-
Other investments	123,424
Property and equipment	3,436
Intangible assets	15,920
<u>Liabilities</u>	
Payables and other credit balances	(11,475)
<u>Non Controlling interest</u>	(77,340)
	<u><u>158,119</u></u>

- e) The provisional fair value of the assets and liabilities have been determined by the management.

- f) Negative goodwill arising on acquisition is as follows:

	30 Sep 2018
Total consideration	144,236
Less: Fair value of identifiable net assets acquired	(158,119)
	<u><u>(13,883)</u></u>

- g) Amwal was consolidated based on the provisional values assigned to the identifiable assets and liabilities as at the acquisition date. The management is in the process of identifying other intangibles assets.

- h) Net cash outflow on acquisition of subsidiaries:

	30 Sep 2018
Consideration paid in cash	(100,833)
Cash and bank balances acquired	52,981
	<u><u>(47,852)</u></u>

- i) Impact of acquisitions on the results of the Group:

Had this business combination been effected at 1 January 2018, the revenue of the Group would have been higher by 37,093 and the profit for the period from continuing operations would have been higher by 14,130.