SHUAA Capital PSC

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDIT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

BOARD OF DIRECTORS' REPORT

Introduction

Following the turn-around achievements of 2017, SHUAA continued executing on its strategy to expand its geographical footprint through the opening of new offices and acquisitions of new businesses to create a fully integrated regional financial services firm.

Full-year profits for 2018 stood at AED 27.2 million (2017: AED 74.0 million).

Asset Management
The Group's Asset Management division which manages investment portfolios and real estate projects via a series of funds in both Saudi Arabia and the UAE, maintained its strong performance, reporting a 34% increase in profitability to AED 22.7 million. The division is soon delivering its third hospitality project in the Saudi city of Dammam and continues working on a set of other key and strategically located projects, such as the Wadi Al Hada mixed-use complex in Riyadh, as well as work progressing on the Dubai based Cayan Cantara mixed use development in Barsha South. During 2018, SHUAA also introduced asset management mandates for fixed income for institutional clients. Revenues for the division came in 28% higher year on year at AED 47.1 million (2017: AED 36.8 million).

Investment Banking
The Investment Banking Division reported profits worth AED 4.5 million (2017: AED 1.9 million), with revenues worth AED 8.1 million (2017: AED 7.1 million). During the year SHUAA was mandated by Jabal Omar Development Company (JODC), one of the largest publicly-listed real estate companies in Saudi Arabia to issue and place a USD 135 million dollar-denominated five-year Sukuk and is actively working on executing further mandates with JODC and other corporates.

Capital Markets
SHUAA's Capital Markets division expanded its Market Making business and added online trading in Forex, commodities, CFDs and equities for clients to its service offering. Its consolidation of both Amwal Int'l Investment Company in Kuwait and Integrated Securities in the UAE, took revenues to AED 47.7 million (2017: AED 16.4 million). SHUAA continues to dominate the market share for derivatives in the UAE, and will soon be rolling the service out to other countries in the region.

Lending
Gulf Finance Corporation UAE and Gulf Finance Saudi Arabia reported a consolidated loss of AED 2.0 million (2017: profit AED 22.1.million), as the business continued to run down its legacy book. Total revenues decreased to AED 38.3 million (2017: AED 69.5 million).

Corporate
During 2018 the Group repaid all its legacy borrowing allowing it to raise AED 450 million in new bank borrowings for acquisitions completed during the year. As a result, interest expense rose to AED 20.9 million (2017: AED 2.7 million) which, together with certain one-off restructuring and integration costs resulted in a net loss at Corporate of AED 29.7 million (2017: AED 36.3 million profit).

The Group forges ahead with the turnaround strategy defined at the beginning of 2017 as it consolidates its cash-flow generative businesses and seeks to take advantage of synergies across the Group divisions and companies.

Jassim Alseddiqi
Chairman

7 March 2019

Deloitte.

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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 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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, advances and finance leases under IFRS 9	
We focused on this area because it requires management to make significant judgements around staging of the exposures in line with the expected credit loss model, identification of loans that are deteriorating, assessment of objective evidence of impairment and the value of collateral. Given the significance of the estimates and judgements used and the quantum of the amount involved i.e. 30% of the total assets we have classified impairment of loan, advances and finance leases as a key audit matter. Further, there were significant changes in the accounting policies, extensive transition disclosure requirements and numerous estimates and judgements involved in the first time adoption of IFRS 9 which are detailed in Note 4 to the consolidated financial statements.	We obtained a detailed understanding of the Group's loans, advances and finance lease business processes and the accounting policies on adoption of IFRS 9 including the critical accounting estimates and judgments used. We have audited the IFRS 9 ECL models as of 1 January 2018 and 31 December 2018. We evaluated the design and tested the implementation and operating effectiveness of certain relevant controls.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters

The Group has applied the requirement of IFRS 9 retrospectively without restating the comparative figures. The difference between previously reported carrying amounts as of 31 December 2017 and new carrying amounts as of 1 January 2018, mainly arising from impairment, has been recognized in the opening retained earnings.

The key changes arising from the adoption of IFRS 9 are that the Group's credit losses are now based on expected credit losses ("ECL") rather than an incurred loss model. The description of accounting policies applied by the Group post implementation of IFRS 9 are detailed in Note 3 to the consolidated financial statements.

The Group employs statistical models for ECL calculations including key variables used in the calculation of probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 3 to the consolidated financial statements.

In determining the ECL provisions for loans and advances, the Group applies significant judgements and estimates of the following areas:

- Identification of significant increase in credit risk and credit impaired loans.
- Qualitative and quantitative reasonable and supportable forward looking information.
- Overrides in staging model applied to reflect current or future external factors that are not necessarily covered in the ECL model.
- Assumptions used in determining financial condition of the counterparty and expected future cash flows.

Individually assessed loans represent mainly, corporate and commercial loans which are assessed in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms and are classified as stage 3 as per IFRS 9.

Impaired loans are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral and many other factors that involve a significant degree of judgement.

Further details of key accounting judgements, estimates, assumptions and relevant disclosure are included in note 4.

How our audit addressed the key audit matters

We understood and evaluated the theoretical soundness of the ECL model by involving our internal experts to ensure its compliance with the requirements of the standard. We tested the mathematical integrity of the ECL model by performing recalculations on a sample of the loans and advances. We checked consistency of various inputs and assumptions used by the Group's management to determine impairment.

We selected a sample of loans and advances and checked the accuracy of the Exposure at Default (EAD), appropriateness of the Probability of Default (PD) and calculations of the Loss Given Default (LGD) used by the management in their ECL calculations.

We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we checked the appropriateness of the Group's staging and challenged a sample of staging overrides undertaken by management.

For forward looking assumptions used by the Group's management in its ECL calculations, our internal experts held discussions with management and corroborated the assumptions using publicly available information.

For exposures determined to be individually impaired, we tested a sample of loans and advances and examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculations. Further, we focused our attention on individually significant exposures, where we tested the estimates and assumptions used by management underlying the impairment identification and quantification, valuation of underlying collateral by external experts and estimated recovery on default.

We checked the appropriateness of the opening balance adjustments and have ensured Group's compliance with the transitional disclosure requirements as per the relevant standards, as well as the completeness and sufficiency of the yearend disclosures.

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INDEPENDENT AUDITOR'S REPORT (continued)

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 are determined through the application of valuation technique which often involves the exercise of judgement and the use of assumptions and estimates. In addition, the valuation of certain instruments like unquoted investments remains a complex area and in particular where the fair value is established using a valuation technique due to the instrument's complexity or due to the lack of availability of market-based data. As at 31 December 2018 financial assets carried at fair value through profit or loss or fair value through other comprehensive income classified as level 3 represents 7.4% of the total assets. Estimation uncertainty is particularly high for those instruments where significant valuation inputs are unobservable and therefore an element of judgement maybe needed to be factored in the valuation. Further details of key accounting judgements, estimates, assumptions and relevant disclosure are included in Note 4.	Our audit procedures included evaluation of the design and testing of implementation of relevant controls in the Group's financial instruments valuation process. We have also tested on a sample basis the appropriateness of the models used by the Group and the reliability of the data that was used as input to these models and determined that the valuation models are consistently applied by the Group. We have also assessed the adequacy of the Group's disclosures including the accuracy of the categorisation into the various fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the year and the sensitivity to key assumptions.
Preliminary Purchase Price Allocation ("PPA") on business acquisitions and impairment assessment of goodwill and intangible assets We identified the Purchase Price Allocation on business acquisitions and the intangibles and Goodwill created as part of the acquisition as an area of focus. The acquisition accounting includes the need to determine the fair value of the acquired assets and liabilities at the acquisition date. We focused on this area given the significant judgements involved in assessing the preliminary fair values of assets and liabilities acquired for the purposes of the 2018 Group financial statements. The fair values are based on certain valuation techniques built, in part, on assmptions around the future performance of the business. During the year, the Group acquired three new businesses as disclosed in Note 33 to the consolidated financial statements. As a result of the acquisition, the Group recognised AED 40 million goodwill and AED 46 million of intangible assets at the yearend (which represents 4% of the Groups total assets). Recognition of such intangible assets has also resulted in a bargain purchase gain of AED 31 million reflected in the consolidated financial statements. Irrespective of whether there is any indication of impairment, goodwill and intangible assets are required to be tested for impairment annually. An impairment arises when the recoverable amount is less than the carrying value of the investment. Risks include: the incorrect determination of the cash generating units used to assess goodwill for impairment; the incorrect allocation of goodwill to cash generating units; inaccurate models are used to calculate the Value in Use of cash generating units; and the assumptions to support goodwill values (e.g. discount rates and growth rates) are inappropriate.	We obtained an understanding of the acquisition process and the accounting policies around the purchase price allocation to evaluate compliance with IFRS 3 *Business Combination* including the critical accounting estimates and judgements used. Further, we performed following procedures: Evaluated the design and tested the implementation and relevant controls related to the acquisition process; Reviewed the sale purchase agreements to determine the significant terms and conditions of acquisition including existence of any contingent consideration; We have also involved our experts in reviewing the critical judgements and estimates involved in performing the PPA exercise which includes assessing the competency of the 3rd party valuator, reviewing the valuation methodology, assessing key cash flow assumptions, discount rates, royalty rates. We have reconciled the outcome of the PPA exercise to the consolidation adjustments made for the goodwill, bargain purchase and intangible assets. For the purpose of testing the goodwill and intangible assets for impairment, we have determined the value in use of the cash generating units by validating the discounted cashflows and comparing them with the carrying value. We have obtained and verified the reasonableness of the key inputs in the projections. We have evaluated the basis of the discount rates by challenging management's assumptions in their forecasts to those publicly available and validated the reasonableness of the growth rates and royalty rates used in the model. We have also evaluated the adequacy of the disclosures in the Group's financial statements to be in compliance with IFRS 3 disclosure requirements.

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INDEPENDENT AUDITOR'S REPORT (continued)

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 compliance with the applicable provisions of the Company's Articles of Association 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 skepticism 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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 2018;

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

vii) Note 25 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2018; and

viii) 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 2018 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 2018.

Deloitte & Touche (M.E)

Musa Ramahi
Registration No.: 872
7 March 2019
Dubai
United Arab Emirate

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Currency - Thousands of U.A.E. Dirhams)

	Notes	*31 December 2018*	*31 December 2017*
Assets			
Cash and deposits with banks	7	**441,422**	148,063
Receivables and other debit balances	8	**104,334**	70,094
Loans, advances and finance leases	9	**627,654**	449,163
Investments in SHUAA managed funds	10	**95,384**	81,651
Investments in other associates	11	**136,710**	90,427
Other investments	12	**591,661**	353,026
Property and equipment	13	**34,487**	32,187
Goodwill and other intangible assets	14	**86,173**	-
Total Assets		**2,117,825**	1,224,611
Liabilities			
Due to banks	15	**520,486**	125,393
Other financial liabilities	16	**142,635**	64,730
Payables and other credit balances	17	**524,948**	135,314
Total Liabilities		**1,188,069**	325,437
Equity			
Share capital	18	**1,065,000**	1,065,000
Treasury shares	19	**(31,129)**	(5,341)
Statutory reserve	20	**10,120**	7,402
Accumulated losses		**(207,704)**	(166,642)
Investments revaluation reserve	21	**(18,663)**	(1,000)
Translation reserve		**1,126**	(279)
Equity attributable to shareholders of the Parent		**818,750**	899,140
Non controlling interests	22	**111,006**	34
Total Equity		**929,756**	899,174
Total Liabilities and Equity		**2,117,825**	1,224,611

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 7 March 2019.

Jassim Alseddiqi Chairman	Fawad Tariq Khan CEO & Board Director

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2018

(Currency - Thousands of U.A.E. Dirhams)

	Notes	***1 October to 31 December 2018 (3 months) Unaudited***	***1 January to 31 December 2018 (12 months) Audited***	*1 October to 31 December 2017 (3 months) Unaudited*	*1 January to 31 December 2017 (12 months) Audited*
Interest income		**15,726**	**54,418**	18,661	74,425
Net fee and commission income	23	**42,940**	**93,450**	21,160	55,514
Trading income		**1,262**	**3,580**	1,315	6,295
Gains/(losses) from investments in SHUAA managed funds	24	**209**	**13,732**	1,685	(1,620)
Total revenues		**60,137**	**165,180**	42,821	134,614
General and administrative expenses	25	**(41,883)**	**(130,041)**	(28,723)	(90,465)
Interest expense		**(14,148)**	**(30,753)**	(3,639)	(18,809)
Depreciation and amortisation		**(3,767)**	**(11,016)**	(1,850)	(7,644)
Allowances for impairment - net	26	**2,325**	**(5,605)**	23,814	27,320
Total expenses		**(57,473)**	**(177,415)**	(10,398)	(89,598)
Net profit/(loss) before (losses)/gains from other investments		**2,664**	**(12,235)**	32,423	45,016
(Losses)/gains from other investments, including investments in other associates	27	**(48,242)**	**9,292**	(18,233)	29,000
Negative goodwill on acquisition of subsidiary	33	**17,563**	**31,446**	-	-
(Loss)/profit for the period/year		**(28,015)**	**28,503**	14,190	74,016
Attributable to:					
Equity holders of the Parent		**(29,249)**	**27,181**	14,190	74,016
Non controlling interests		**1,234**	**1,322**	-	-
		(28,015)	**28,503**	14,190	74,016
Earnings/(loss) per share (in AED)	28	**(0.028)**	**0.026**	0.013	0.069

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Currency - Thousands of U.A.E. Dirhams)

	1 October to 31 December 2018 (3 months) Unaudited	***1 January to 31 December 2018 (12 months) Audited***	*1 October to 31 December 2017 (3 months) Unaudited*	*1 January to 31 December 2017 (12 months) Audited*
(Loss)/profit for the period/year	**(28,015)**	**28,503**	14,190	74,016
Other comprehensive (loss)/income				
Items that may be reclassified subsequently to profit or loss:				
Net revaluation reserve movement on:				
- other investments	**(18,989)**	**(19,022)**	-	-
- investments in SHUAA managed funds			367	(532)
Exchange differences on translation of foreign operations	**3,457**	**3,417**	(76)	(99)
Other comprehensive (loss)/income for the period/year	**(15,532)**	**(15,605)**	291	(631)
Total comprehensive (loss)/income for the period/year	**(43,547)**	**12,898**	14,481	73,385
Attributable to:				
Equity holders of the Parent	**(46,433)**	**9,923**	14,481	73,385
Non controlling interests	**2,886**	**2,975**	-	-
	(43,547)	**12,898**	14,481	73,385

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Currency - Thousands of U.A.E. Dirhams)

	1 January to 31 December 2018	*1 January to 31 December 2017*
Cash flows from operating activities		
Profit for the year	**28,503**	74,016
Adjustments for:		
Depreciation and amortisation	**11,016**	7,644
(Gains)/losses from investments in SHUAA managed funds	**(13,732)**	1,620
Gains from other investments including other associates	**(9,292)**	(29,000)
Allowances for impairment - net	**5,605**	(27,320)
Negative goodwill on acquisition of subsidiary	**(31,446)**	-
Operating cash flows before changes in operating assets and liabilities	**(9,346)**	26,960
Changes in operating assets and liabilities:		
Increase in receivables and other debit balances	**(12,465)**	(27,424)
(Increase)/decrease in loans, advances and finance leases	**(132,786)**	179,100
Increase/(decrease) in payables and other credit balances	**97,419**	(38,404)
Net redemption from SHUAA managed funds	**-**	18,781
Net cash (used in)/generated from operating activities	**(57,178)**	159,013
Cash flows from investing activities		
Net purchase of other investments	**(212,629)**	(214,201)
Net investment in other associates	**-**	(37,832)
Net cash on acquisition of subsidiaries	**105,305**	-
Dividends and other distributions from associates	**4,900**	2,075
Net purchase of intangibles, property and equipment	**(5,026)**	(6,257)
Net cash used in investing activities	**(107,450)**	(256,215)
Cash flows from financing activities		
Increase/(decrease) in due to banks	**369,963**	(171,551)
Increase in other financial liabilities	**77,905**	64,730
Dividend distribution	**(21,253)**	-
Purchase of treasury shares	**(25,788)**	-
Net cash generated from/(used in) financing activities	**400,827**	(106,821)
Net increase /(decrease) in cash and cash equivalents	**236,199**	(204,023)
Foreign currency translation	**3,521**	(113)
Cash and cash equivalents at beginning of the year	**112,188**	316,324
Cash and cash equivalents at end of the year (note 7)	**351,908**	112,188
Operational cash flows from interest and dividend		
Interest received	**53,311**	73,759
Interest paid	**(23,267)**	(21,002)
Dividend received	**5,842**	800

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Currency - Thousands of U.A.E. Dirhams)

	Equity attributable to shareholders of the Parent									
	Share capital	*Treasury shares*	*Employee long term incentive plan shares*	*Statutory reserve*	*Accumulated losses*	*Investment revaluation reserve*	*Translation reserve*	*Total*	*Non controlling interests*	*Total*
Balance as of 1 January 2017	1,065,000	-	(5,341)	-	(233,256)	(468)	(180)	825,755	34	825,789
Total comprehensive income/(loss) for the year	-	-	-	-	74,016	(532)	(99)	73,385	-	73,385
Transferred to statutory reserve	-	-	-	7,402	(7,402)	-	-	-	-	-
Balance as of 31 December 2017	1,065,000	-	(5,341)	7,402	(166,642)	(1,000)	(279)	899,140	34	899,174

	Equity attributable to shareholders of the Parent									
	Share capital	*Treasury shares*	*Employee long term incentive plan shares*	*Statutory reserve*	*Accumulated losses*	*Investment revaluation reserve*	*Translation reserve*	*Total*	*Non controlling interests*	*Total*
Balance as of 1 January 2018	1,065,000	-	(5,341)	7,402	(166,642)	(1,000)	(279)	899,140	34	**899,174**
Impact of adopting IFRS 9 as of 1 January 2018 (Note 2)	-	-	-	-	(44,272)	1,000	-	(43,272)	-	**(43,272)**
Restated balance as of 1 January 2018	**1,065,000**	**-**	**(5,341)**	**7,402**	**(210,914)**	**-**	**(279)**	**855,868**	**34**	**855,902**
Total comprehensive income/(loss) for the year	-	-	-	-	27,181	(18,663)	1,405	9,923	2,975	**12,898**
Dividend declared and paid (Note 18)	-	-	-	-	(21,253)	-	-	(21,253)	-	**(21,253)**
Transfer to treasury shares (Note 19)	-	(5,341)	5,341	-	-	-	-	-	-	-
Purchase of treasury shares (Note 19)	-	(25,788)	-	-	-	-	-	(25,788)	-	**(25,788)**
Non controlling interest arising from acquisition of subsidiaries (Note 33)	-	-	-	-	-	-	-	-	107,997	**107,997**
Transfer to statutory reserve (Note 20)	-	-	-	2,718	(2,718)	-	-	-	-	-
Balance as of 31 Decemebr 2018	**1,065,000**	**(31,129)**	**-**	**10,120**	**(207,704)**	**(18,663)**	**1,126**	**818,750**	**111,006**	**929,756**

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

(Currency - 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 Securities and Commodities Authority to conduct Investment Management, Financial Consulting and Financial Analysis, Promotion and Managing Initial Public Offering 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 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 2018 are as follows:

Name	**Country of incorporation**	**Principal activities**	**Holding *31 December 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 Capital Saudi Arabia CJSC	Saudi Arabia	Financial services	**100.0%**	100.0%
SHUAA Securities Egypt SAE	Egypt	Brokerage	**100.0%**	100.0%
Integrated Securities LLC (Note – 33)	United Arab Emirates	Brokerage	**100.0%**	-
Integrated Capital PJSC (Note – 33)	United Arab Emirates	Financial services	**96.0%**	-
Amwal International Investment Company KSCP (Note – 33)	Kuwait	Financial services	**87.2%**	-
Asia for Economic Consultancy LLC	Jordan	Consultancy	**94.3%**	94.3%
SHUAA Securities LLC *	United Arab Emirates	Brokerage	**-**	100.0%

* 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 were transferred to the Parent Company and the business of the subsidiary is being managed through newly acquired subsidiary Integrated Securities LLC.

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

2.1 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
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28	*1 January 2018*
IFRS 15 Revenue from Contracts with Customers	*1 January 2018*
IFRIC 22 Foreign Currency Transactions and Advance Consideration	*1 January 2018*
Amendments to IFRS 2 Share Based Payment Transactions	*1 January 2018*
Amendments to IAS 40 Investment Property	*1 January 2018*

(Currency - Thousands of U.A.E. Dirhams)

2. APPLICATION OF NEW AND REVISED IFRS - continued

2.2 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 16 Leases	*1 January 2019*
IFRIC 23 Uncertainty over Income Tax Treatments	*1 January 2019*
Amendments to IFRS 9 Financial Instruments	*1 January 2019*
Amendments to IAS 28 Investment in Associates and Joint Ventures	*1 January 2019*
Annual Improvements to IFRS Standards 2015 – 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	*1 January 2019*
IFRS 17 Insurance Contracts	*1 January 2021*

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 an impact on amounts reported in respect of the Group's financial statements. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2.3 Relevant new and revised IFRS applied with material effect on the consolidated financial statements

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 consolidated financial statements.

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 year. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have been only applied to the current year.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

(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.

(Currency - Thousands of U.A.E. Dirhams)

2. APPLICATION OF NEW AND REVISED IFRS - continued

2.3 Relevant new and revised IFRS applied with material effect on the consolidated financial statements (continued)

IFRS 9 Financial Instruments (continued)

(i) Classification of financial assets and financial liabilities (continued)

Financial liabilities
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.

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

	Original classification as per IAS 39	*New classification as per IFRS 9*	*Original carrying amount*	*Remeasurement*	*New carrying amount*
Financial assets					
Investments in SHUAA managed funds					
Reclassification of investment securities	AFS	FVTPL	15,160	-	15,160
Other investments					
Reclassification of investment securities	AFS	FVTPL	9,043	-	9,043
Remeasurement of other associates	-	-	90,427	(1,506)	88,921
Loans, advances and finance leases					
Remeasurement of impairment under IFRS 9	Amortised cost	Amortised cost	449,163	(40,766)	408,397
Receivables and other debit balances					
Remeasurement of impairment under IFRS 9	Amortised cost	Amortised cost	70,094	(1,000)	69,094

The impact from the adoption of IFRS 9 as at 1 January 2018 on accumulated losses is as follows:

	Accumulated losses
Closing balance under IAS 39 (31 December 2017)	(166,642)
Impact on recognition of expected credit losses	
Loans, advances and finance leases	(40,766)
Receivables and other debit balances	(1,000)
Other investments	(1,506)
	(43,272)
Impact of amount transferred from investment revaluation reserve on adoption of IFRS 9	(1,000)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	(210,914)

2. APPLICATION OF NEW AND REVISED IFRS - continued

2.3 Relevant new and revised IFRS applied with material effect on the consolidated financial statements (continued)

IFRS 9 Financial Instruments (continued)

(i) Classification of financial assets and financial liabilities (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)
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.

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:

2. APPLICATION OF NEW AND REVISED IFRS - continued

2.3 Relevant new and revised IFRS applied with material effect on the consolidated financial statements (continued)

IFRS 9 Financial Instruments (continued)

(ii) *Impairment (continued)*

Measurement of ECL (continued)
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.

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.

(Currency - Thousands of U.A.E. Dirhams)

2. APPLICATION OF NEW AND REVISED IFRS - continued

2.3 Relevant new and revised IFRS applied with material effect on the consolidated financial statements (continued)

IFRS 9 Financial Instruments (continued)

(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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets

The policy applicable from 1 January 2018 (due to application of IFRS 9) is described in Note 2.3
.
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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets - continued

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 policy applicable from 1 January 2018 (due to application of IFRS 9) is described in Note 2.3

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 contracts
The policy applicable from 1 January 2018 (due to application of IFRS 9) is described in Note 2.3

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.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment in associates - continued

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.

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.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of non-financial assets - continued

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

Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Group to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Group based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

Fee income is accounted for as follows:

(i) income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);
(ii) income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
(iii) other fees and commission income and expense are recognised as the related services are performed or received.

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).

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 of the Group may 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.

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.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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

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 or negative 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.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business Combination –continued

Goodwill *- continued*

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.

Non-controlling interests

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.

Contingent consideration

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.

Business combination achieved in stages

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.

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.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised on a straight-line bases over the intangible asset's estimated useful lives over the following periods:

Customer Relationships	5 years
Trademark	10 years

Intangible assets with indefinite useful (trade licenses) lives are not amortised, but are tested for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to definite is made on a prospective basis.

(Currency - Thousands of U.A.E. Dirhams)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements 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.

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

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

(i) Financial instruments (applicable from 1 January 2018)

Judgments made in applying accounting policies that have most significant effects on the amounts recognised in the consolidated financial statements of the year ended 31 December 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 (ECL): The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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. This assessment includes judgment reflecting all relevant evidence including:

- 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.

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:

<u>Assessment of Significant Increase in Credit Risk</u>
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.

The Group assessment of significant increases in credit risk is being 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:

- The Group has established thresholds for significant increases in credit risk based on movement in DPDs (Level of Delinquency) relative to initial recognition.
- Additional qualitative reviews have been 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.

(Currency - Thousands of U.A.E. Dirhams)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

(i) Financial instruments (applicable from 1 January 2018) (continued)

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

Assessment of Significant Increase in Credit Risk (continued)
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.

The Group estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios namely base case, upside and downside.

The Group base case scenario is based on macroeconomic forecasts published by the Central Bank of UAE. The Group used 2 year oil prices forecast for the sensitivity analysis. Upside and downside scenarios are set relative to the Group 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 are probability-weighted according to the Group best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis. All scenarios considered are applied to all portfolios subject to expected credit losses with the same probabilities.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Group.

In some instances the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Group's Governance process for oversight.

Definition of default
The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages is 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.

(ii) Impairment losses on loans, advances and finance leases (applicable before 1 January 2018)

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 which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

(Currency - Thousands of U.A.E. Dirhams)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

(iii) Impairment of available for sale investments (applicable before 1 January 2018)

The Group determines the impairment of available-for-sale equity securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

(iv) 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.

(v) 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.

(vi) Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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 2018			
	Level 1	***Level 2***	***Level 3***	***Total***
Financial assets				
Investments in SHUAA managed funds				
Held at fair value through profit or loss	**-**	**16,646**	**-**	**16,646**
Other investments				
Held at fair value through profit or loss	**268,010**	**76,417**	**55,189**	**399,616**
Held at fair value through OCI	**90,424**	**-**	**101,621**	**192,045**
Receivable and other debit balances				
Derivative instruments	**-**	**10,145**	**-**	**10,145**
	358,434	**103,208**	**156,810**	**618,452**
Financial liabilities				
Held at fair value through profit or loss	**(8,558)**	**-**	**-**	**(8,558)**

(Currency - Thousands of U.A.E. Dirhams)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

	31 December 2017			
	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Investments in SHUAA managed funds				
Held at fair value through profit or loss	-	-	-	-
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
Financial liabilities				
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.

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.

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and Key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
	31/12/18	**31/12/17**				
Fair value through P&L						
Equity investments	**30,316**	-	3	Discounted cash flow	Discount rate and growth rate	The higher the discount rate, the lower the fair value
Fixed Income	**2,263**	379	3	Adjusted NAV	Adjusted NAV	The higher the NAV, the higher the fair value
Fund investments	**22,610**	9,012	3	Adjusted book value	Book value adjusted with market risk	The higher the market risk, the lower the fair value
Fair value through FVOCI						
Fund investments	**98,599**	-	3	Adjusted book value	Book value adjusted with market risk	The higher the market risk, the lower the fair value
Equity investments	**3,022**	-	3	NAV	NAV	The higher the NAV, the higher the fair value

5. FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

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 2018						
	Balance at 31 December 2017	*Impact of IFRS 9 at 1 January 2018*	***Balance at 1 January 2018***	***Acquired on acquisition of subsidiary / Purchases***	***Gain/(loss) through P&L***	***Gain/(loss) through OCI***	***Balance at 31 December 2018***
Other investments							
Held at FVTPL	379	9,012	**9,391**	**38,081**	**7,717**	**-**	**55,189**
AFS / FVOCI	9,012	(9,012)	**-**	**110,705**	**-**	**(9,084)**	**101,621**
	9,391	-	**9,391**	**148,786**	**7,717**	**(9,084)**	**156,810**

	31 December 2017						
	Balance at 1 January 2017	*Gain/(loss) through P&L*	*Gain/(loss) through OCI*	*Purchases*	*Sales*	*Transfers from/(to) levels 1 &2*	*Balance at 31 December 2017*
Other investments							
Held at FVTPL	379	-	-	-	-	-	379
Available for sale	9,043	(31)	-	-	-	-	9,012
	9,422	(31)	-	-	-	-	9,391

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

	31 December 2018	*31 December 2017*
Other investments		
Unrealised gains/(losses)	**7,717**	(31)

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 2018		*31 December 2017*	
	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	**55,189**	**11,151**	379	95
FVOCI / Available for sale	**101,621**	**20,324**	9,012	1,802
	156,810	**31,475**	9,391	1,897

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.

(Currency - Thousands of U.A.E. Dirhams)

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.

Credit risk management
The estimation of credit risk for risk management purpose is complex and requires use of models, as the exposure varies with changes in market condition, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring and of the associated loss ratios. The Group measures credit risk using PD, EAD and LGD. This is similar to the approach used for the purpose of measuring ECL under IFRS 9.

Credit risk grading
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. The credit grades are calibrated, such that the risk of default increases exponentially at each higher risk grade.

The following data are typically used to monitor the Group's exposures:

- Information obtained at the time of extending the facility and periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions
- Utilization of the granted limit
- Payment record – this includes overdue status as well as a range of variables about payment ratios.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as oil prices, non-oil commodities indexes, etc. The Group generates a 'based case' scenario of the future direction of relevant economic variables as well as representative range of other possible forecast scenarios.

Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, which is fully aligned with definition of credit impaired, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments.
- The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances like long-term forbearance, borrower is insolvent, borrower is entering bankruptcy etc.

Significant increase in credit risk
The Group considers a financial instrument to have experienced a significant increase in credit risk when there is significant increase in credit risk is measured by comparing the risk of default estimated at origination. The Group also considers in its assessment of significant increase in credit risk, various qualitative factors like significant adverse changes in business, extension of term granted, actual and expected forbearance or restructuring, early sign of cash flows and liquidity problems.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Measuring ECL - Explanations of input, assumptions and estimation techniques
PD, EAD and LGD are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in earlier year) on annual basis. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in ECL computation is the original effective interest rate or an approximation thereof.

The Lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the loans. The maturity profile is based on historical observed data.

The EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over the 12 months and lifetime basis. This is also adjusted for any overpayments made by the borrower.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default.

LGDs are computed at facility level. This is dependent upon information such as exposure, collateral, business segment characteristics and macro-economic outlook. Forward looking economic information is also included in determining the 12 month and lifetime PD, EAD and LGD.

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.

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

	Gross maximum exposure 31 December 2018	*Gross maximum exposure 31 December 2017*
Cash and deposits with banks	**441,422**	148,063
Receivables and other debit balances	**75,513**	54,235
Loans, advances and finance leases	**627,654**	449,163
Other investments		
Held at fair value through profit or loss	**179,890**	101,060
	1,324,479	752,521
Contingent liabilities	**26,160**	1,939
Commitments	**214,207**	67,199
	240,367	69,138
Total credit risk exposure	**1,564,846**	821,659

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Credit risk – continued

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

	UAE	GCC Other	MENA Other	North America	Europe	Asia Other	Total
Cash and deposits with banks	**308,395**	**100,806**	**17,665**	**519**	**10,156**	**3,881**	**441,422**
Receivables and other debit balances	**73,303**	**25,304**	**5,579**	**-**	**122**	**26**	**104,334**
Loans, advances and finance leases	**349,312**	**221,895**	**37,835**	**128**	**119**	**18,365**	**627,654**
Investments in SHUAA managed funds	**-**	**95,384**	**-**	**-**	**-**	**-**	**95,384**
Investments in other associates	**97,643**	**39,067**	**-**	**-**	**-**	**-**	**136,710**
Other investments	**422,024**	**110,896**	**7,631**	**30,316**	**18,759**	**2,035**	**591,661**
Property and equipment	**24,900**	**8,078**	**1,509**	**-**	**-**	**-**	**34,487**
Goodwill and other intangibles	**49,626**	**36,406**	**-**	**-**	**141**	**-**	**86,173**
Total Assets - 31 December 2018	**1,325,203**	**637,836**	**70,219**	**30,963**	**29,297**	**24,307**	**2,117,825**
Total Assets - 31 December 2017	755,379	417,060	46,204	513	4,645	810	1,224,611

Credit quality analysis
The credit quality of financial assets is managed by the Group using internal credit ratings. The Company's cash and bank balances represents high grade assets which are placed with financial institutions with high credit rating. The table below shows the credit quality by class of other financial asset, based on the Group's credit rating system.

	31 December 2018				31 December 2017
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans, advances and finance leases					
Performing	387,703	133,810	-	**521,513**	**370,622**
Non-performing	-	-	287,568	**287,568**	**218,735**
Gross loans, advances and finance leases	387,703	133,810	287,568	**809,081**	**589,357**
Allowance for impairment *	(895)	(1,837)	(178,695)	**(181,427)**	**(140,194)**
Carrying amount	**386,808**	**131,973**	**108,873**	**627,654**	**449,163**
Receivables and other debit balances					
Performing	46,080	30,048	-	**76,128**	**54,235**
Non-performing	-	-	2,403	**2,403**	**790**
Gross receivables and other debit balances	46,080	30,048	2,403	**78,531**	**55,025**
Allowance for impairment	(920)	(617)	(1,481)	**(3,018)**	**(790)**
Carrying amount	**45,160**	**29,431**	**922**	**75,513**	**54,235**

*Allowance for impairment are stated net of interest in suspense.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Credit risk – continued

Credit quality analysis (continued)

	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans, advances and finance leases				
Balance at 1 January (per IAS 39)	(3,492)	(635)	(136,067)	**(140,194)**
ECL recognised under IFRS 9	(4,819)	(22,965)	(12,982)	**(40,766)**
Balance at 1 January (Adjusted opening as per IFRS 9)	(8,311)	(23,600)	(149,049)	**(180,960)**
Allowance for impairment	(12)	795	(2,203)	**(1,420)**
(Write off)/write back	-	-	953	**953**
Changes in allowance for impairment				
- Transfer to Stage 1	(489)	-	489	-
- Transfer to Stage 2	-	(587)	587	-
- Transfer to Stage 3	7,917	21,555	(29,472)	-
Closing balance	**(895)**	**(1,837)**	**(178,695)**	**(181,427)**
Receivables and other debit balances				
Balance at 1 January (per IAS 39)	-	-	(790)	**(790)**
ECL recognised under IFRS 9	-	-	(1,000)	**(1,000)**
Balance at 1 January (Adjusted opening as per IFRS 9)			(1,790)	**(1,790)**
Allowance for impairment	-	-	(1,228)	**(1,228)**
Changes in allowance for impairment				
- Transfer to Stage 1	(920)	-	920	-
- Transfer to Stage 2	-	(617)	617	-
Closing balance	**(920)**	**(617)**	**(1,481)**	**(3,018)**

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.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk – continued

The maturity profile of assets and liabilities as of 31 December 2018 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	351,908	32,518	**384,426**	**56,996**	**-**	**441,422**
Receivables and other debit balances	56,647	33,976	**90,623**	**13,711**	-	**104,334**
Loans, advances and finance leases	283,281	157,734	**441,015**	**186,639**	-	**627,654**
Investments in SHUAA managed funds*	-	-	**-**	**95,384**	-	**95,384**
Investments in other associates*	-	-	**-**	**136,710**	-	**136,710**
Other investments*	151,686	236,633	**388,319**	**203,342**	-	**591,661**
Property and equipment*	-	-	**-**	**34,487**	-	**34,487**
Goodwill and other intangible assets	-	-	**-**	**86,173**	-	**86,173**
Total Assets	**843,522**	**460,861**	**1,304,383**	**813,442**	**-**	**2,117,825**
Due to banks	61,388	161,017	**222,405**	**298,081**	**-**	**520,486**
Other financial liabilities	20,000	85,905	**105,905**	**36,730**	**-**	**142,635**
Payables and other credit balances	297,456	164,120	**461,576**	**63,372**	**-**	**524,948**
Equity	-	-	**-**	**-**	**929,756**	**929,756**
Total Liabilities and Equity	**378,844**	**411,042**	**789,886**	**398,183**	**929,756**	**2,117,825**
Net liquidity gap	**464,678**	**49,819**	**514,497**	**415,259**	**(929,756)**	**-**
Cumulative liquidity gap	**464,678**	**514,497**	**514,497**	**929,756**	**-**	**-**

The maturity profile of assets and liabilities as of 31 December 2017 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	112,188	12,353	124,541	23,522	-	148,063
Receivables and other debit balances	43,098	17,885	60,983	9,111	-	70,094
Loans, advances and finance leases	133,276	158,475	291,751	157,412	-	449,163
Investments in SHUAA managed funds*	-	-	-	81,651	-	81,651
Investments in other associates*	-	-	-	90,427	-	90,427
Other investments*	162,689	120,633	283,322	69,704	-	353,026
Property and equipment*	-	-	-	32,187	-	32,187
Total Assets	451,251	309,346	760,597	464,014	-	1,224,611
Due to banks	71,383	53,712	125,095	298	-	125,393
Payables and other credit balances	98,530	38,557	137,087	62,957	-	200,044
Equity	-	-	-	-	899,174	899,174
Total Liabilities and Equity	169,913	92,269	262,182	63,255	899,174	1,224,611
Net liquidity gap	281,338	217,077	498,415	400,759	(899,174)	-
Cumulative liquidity gap	281,338	498,415	498,415	899,174	-	-

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk – continued

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

	31 December 2018			
	Less than 3 months	***3 - 12 months***	***1 - 5 years***	***Total***
Due to banks	**(62,296)**	**(185,507)**	**(390,758)**	**(638,561)**
Other financial liabilities	**(20,626)**	**(90,847)**	**(41,351)**	**(152,824)**
Payables and other credit balances	**(54,057)**	**(61,095)**	**-**	**(115,152)**

	31 December 2017			
	Less than 3 months	*3 - 12 months*	*1 - 5 years*	*Total*
Due to banks	(52,505)	(151,823)	(107,810)	(312,138)
Other financial liabilities	(560)	(29,674)	(43,865)	(74,099)
Payables and other credit balances	-	(26,830)	-	(26,830)

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

	31 December 2018			
	Less than 3 months	***3 - 12 months***	***1 - 5 years***	***Total***
Contingent liabilities	**2,668**	**20,992**	**2,500**	**26,160**
Commitments	**146,908**	**100**	**67,199**	**214,207**
Total	**149,576**	**21,092**	**69,699**	**240,367**

	31 December 2017			
	Less than 3 months	*3 - 12 months*	*1 - 5 years*	*Total*
Contingent liabilities	1,939	-	-	1,939
Commitments	-	-	67,199	67,199
Total	1,939	-	67,199	69,138

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.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Market risk – continued

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 2018***	*Sensitivity of net interest income 31 December 2017*
AED	25	**(982)**	32
SAR	25	**(112)**	(34)

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 2018. The book value of assets and liabilities subject to variable interest rates is respectively 186,665 and 472,311 (31 December 2017 – 57,807 and 125,652).

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 2018. 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 2018, 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 2018		*31 December 2017*	
	% 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	**-**	**(2,191)**	(69)	-
Egyptian Pound	+1	**(12)**	**(175)**	(1)	(181)
Great Britain Pound	+1	**(91)**	**-**	-	-
Euro	+1	**3**	**(30)**	2	-

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.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

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 2018		*31 December 2017*	
	% 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	**(483)**	**-**	(3,250)	-
Kuwait	-5	**-**	**-**	(685)	-
UAE	-5	**(4,029)**	**(9,451)**	(4,742)	-
Egypt	-5	**(49)**	**-**	-	-
Funds	-5	**(7,108)**	**(300)**	(3,921)	(758)
Bonds	-5	**(8,588)**	**-**	(5,016)	-

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 2018	*31 December 2017*
Total borrowings	**776,081**	215,686
Total equity	**929,756**	899,174
Gearing ratio	**0.83**	0.24

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 89,514 (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 consolidated statement of cash flows, cash and cash equivalents are stated net of these deposits.

(Currency - Thousands of U.A.E. Dirhams)

8. RECEIVABLES AND OTHER DEBIT BALANCES

	31 December 2018	*31 December 2017*
Amounts due from managed funds	**30,188**	24,752
Advances and deposits	**11,590**	10,926
Client related receivables	**4,386**	7,115
Asset held for sale (a)	**7,751**	6,658
Receivable against unsettled trades	**9,450**	5,045
Derivative financial asset	**10,145**	3,745
Prepayments	**10,925**	5,456
Reverse repurchase agreements (b)	**5,338**	-
Interest receivable	**2,546**	1,439
Other	**12,015**	4,958
	104,334	70,094

a) Asset held for sale

Includes value of a plot of land received as distribution in kind from an associate. The Group intends to sell the assets in the near term.

b) 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.

9. LOANS, ADVANCES AND FINANCE LEASES

Loans, advances and finance leases comprise the following:

	31 December 2018	*31 December 2017*
Loans and advances	**256,210**	292,064
Finance leases	**162,244**	121,960
Margin lending	**209,200**	35,139
	627,654	449,163

(a) Loans and advances

	31 December 2018	*31 December 2017*
Total loans and advances	**487,298**	426,746
Cumulative provision for impairment	**(131,066)**	(94,258)
Interest in suspense	**(100,022)**	(40,424)
	256,210	292,064

(Currency - Thousands of U.A.E. Dirhams)

9. LOANS, ADVANCES AND FINANCE LEASES - continued

(b) Finance Leases

	31 December 2018	*31 December 2017*
Current finance lease receivables	**104,257**	97,897
Non-current finance lease receivables	**82,877**	40,077
Allowances for uncollectible lease payments	**(24,890)**	(16,014)
	162,244	121,960

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 2018	*31 December 2017*	***31 December 2018***	*31 December 2017*
Not later than one year	**120,003**	113,540	**104,257**	97,897
Later than one year and not later than five years	**99,277**	45,291	**82,877**	40,077
	219,280	158,831	**187,134**	137,974
Less: unearned finance income	**(32,146)**	(20,857)	**-**	-
Present value of minimum lease payments receivable	**187,134**	137,974	**187,134**	137,974
Allowances for uncollectible lease payments	**(24,890)**	(16,014)	**(24,890)**	(16,014)
	162,244	121,960	**162,244**	121,960

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 2018, these underlying securities were valued at 471,549 (31 December 2017 – 185,935). Provisions are made for the uncovered portion of margins. As at the end of the year, the cumulative provision is 51,387 (31 December 2017 – 47,790).

Some of the underlying securities in an amount of 55,070 (31 December 2017: nil) are pledged under repurchase agreements with financial institutions.

10. INVESTMENTS IN SHUAA MANAGED FUNDS

Investments in SHUAA managed funds consist of the following:

	31 December 2018	*31 December 2017*
Associates *	**78,738**	66,491
FVTPL	**16,646**	-
Available for sale	**-**	15,160
	95,384	81,651

*The only movement in associates is gain/(loss) recorded during the year.

(Currency - Thousands of U.A.E. Dirhams)

10. INVESTMENTS IN SHUAA MANAGED FUNDS - continued

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 owns 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 Kingdom of Saudi Arabia.

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

	31 December 2018	*31 December 2017*
Assets	**89,026**	76,619
Liabilities	**(10,288)**	(10,128)
Net assets	**78,738**	66,491
Profit /(loss) – net	**12,247**	(1,900)

11. INVESTMENTS IN OTHER ASSOCIATES

The Group has investments in other associates in the following locations:

	31 December 2018	*31 December 2017*
U.A.E.	**97,643**	90,427
G.C.C	**39,067**	-
	136,710	90,427

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

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.

ADCORP Limited
ADCORP Limited is a private company limited by shares incorporated in Abu Dhabi Global Market (ADGM) and authorised 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.

The below table shows the movement in associates during the year

	31 December 2018	*31 December 2017*
Balance at beginning of the year	**90,427**	44,766
Impact of IFRS 9 at 1 January 2018	**(1,506)**	-
Adjusted balance at 1 January	**88,921**	44,766
Acquisition	**-**	37,832
Reclassification from FVTPL	**38,718**	-
Share of results of associates	**1,944**	5,596
Impairment reversal	**12,027**	10,966
Dividends and other distributions	**(4,900)**	(8,733)
Balance at end of the year	**136,710**	90,427

(Currency - Thousands of U.A.E. Dirhams)

11. INVESTMENTS IN OTHER ASSOCIATES - continued

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

	31 December 2018	*31 December 2017*
Assets	**448,977**	158,083
Liabilities	**(308,482)**	(53,235)
Net assets	**140,495**	104,898
Profit/(loss) – net	**1,944**	5,596

12. OTHER INVESTMENTS

Other investments comprise the following:

	31 December 2018	*31 December 2017*
Investments held at fair value through profit or loss	**399,616**	343,983
Investments held at fair value through other comprehensive income	**192,045**	-
Investments available for sale (Note 2.3)	**-**	9,043
	591,661	353,026

a) Investments held at fair value through profit or loss

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

	31 December 2018	*31 December 2017*
Fixed income securities	**179,890**	101,060
Fund investments	**128,497**	69,378
Equity securities	**91,229**	173,545
	399,616	343,983

Included in fixed income securities is an amount of 3,031 (31 December 2017: nil), pledged under repurchase agreements with financial institutions.

Included in fund investments is an amount of 13,517 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.

b) Investments held at fair value through other comprehensive income

Investments held at FVOCI / AFS comprise the following:

	31 December 2018	*31 December 2017*
Equity investments	**189,023**	31
Fund investments	**3,022**	9,012
	192,045	9,043

(Currency - Thousands of U.A.E. Dirhams)

13. PROPERTY AND EQUIPMENT

	31 December 2018	*31 December 2017*
Property and equipment	**33,781**	26,557
Capital work in progress	**706**	5,630
	34,487	32,187

Property and equipment

	31 December 2018						
	Furniture & leasehold improvements	***Office equipment, computer & software***	***Motor vehicles***	***Land & buildings***	***Sub-Total***	***Equipment - operating lease***	***Total***
Cost							
Balance at beginning of the year	**17,659**	**47,043**	**801**	**18,583**	**84,086**	**2,553**	**86,639**
Additions	**6,632**	**2,960**	**358**	**-**	**9,950**	**-**	**9,950**
Acquired on acquisition of subsidiaries	**2,543**	**13,156**	**88**	**-**	**15,787**	**-**	**15,787**
Disposals	**(591)**	**(135)**	**-**	**-**	**(726)**	**-**	**(726)**
Balance at end of the year	**26,243**	**63,024**	**1,247**	**18,583**	**109,097**	**2,553**	**111,650**
Accumulated depreciation							
Balance at beginning of the year	**17,330**	**35,775**	**628**	**3,796**	**57,529**	**2,553**	**60,082**
Charge for the year	**1,808**	**6,945**	**188**	**465**	**9,406**	**-**	**9,406**
Acquired on acquisition of subsidiaries	**814**	**8,244**	**49**	**-**	**9,107**	**-**	**9,107**
Disposals	**(591)**	**(135)**	**-**	**-**	**(726)**	**-**	**(726)**
Balance at end of the year	**19,361**	**50,829**	**865**	**4,261**	**75,316**	**2,553**	**77,869**
Net book value							
Balance at end of the year	**6,882**	**12,195**	**382**	**14,322**	**33,781**	**-**	**33,781**

	31 December 2017						
	Furniture & leasehold improvements	*Office equipment, computer & software*	*Motor vehicles*	*Land & buildings*	*Sub-Total*	*Equipment - operating lease*	*Total*
Cost							
Balance at beginning of the year	17,647	46,860	717	18,583	83,807	2,553	86,360
Additions	44	499	84	-	627	-	627
Disposals	(32)	(316)	-	-	(348)	-	(348)
Balance at end of the year	17,659	47,043	801	18,583	84,086	2,553	86,639
Accumulated depreciation							
Balance at beginning of the year	16,798	29,602	502	3,331	50,233	2,553	52,786
Charge for the year	564	6,489	126	465	7,644	-	7,644
Disposals	(32)	(316)	-	-	(348)	-	(348)
Balance at end of the year	17,330	35,775	628	3,796	57,529	2,553	60,082
Net book value							
Balance at end of the year	329	11,268	173	14,787	26,557	-	26,557

(Currency - Thousands of U.A.E. Dirhams)

14. GOODWILL AND OTHER INTANGIBLES

	31 December 2018				
	Goodwill	*Trademark*	*Customer Relationships*	*Trade Licenses*	*Total*
Cost					
Balance at beginning of the year	-	-	-	-	-
Acquired on acquisition of subsidiaries	**40,162**	**1,734**	**21,876**	**24,011**	**87,783**
Balance at end of the year	**40,162**	**1,734**	**21,876**	**24,011**	**87,783**
Accumulated amortisation					
Balance at beginning of the year	-	-	-	-	-
Charge for the year	-	**43**	**1,567**	-	**1,610**
Balance at end of the year	-	**43**	**1,567**	-	**1,610**
Net book value					
Balance at end of the year	**40,162**	**1,691**	**20,309**	**24,011**	**86,173**
Balance at 31 December 2017	-	-	-	-	-

The Group performed its annual impairment tests of goodwill as at 31 December 2018. The recoverable amount of underlying cash generating unit has been determined based on value in use calculations, using cash flow projections based on financial budgets approved by senior management covering a five year period. The calculation of value in use is most sensitive to UAE and GCC gross domestic product, discount rates, market share and projected growth rates used to extrapolate cash flows beyond the budget period. The discount rate applied to cash flow projections is 12% and cash flows beyond the five year period are extrapolated using 3% growth rate. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, there are no indications that goodwill is impaired.

15. 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 2018	*31 December 2017*
Repayable within twelve months	**222,406**	125,095
Repayable after twelve months	**298,080**	298
	520,486	125,393

The Group's banking facilities carry EIBOR/SIBOR based floating interest 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 31 December 2018, letters of guarantee on behalf of the Group amounting to 281,515 (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.

(Currency - Thousands of U.A.E. Dirhams)

16. OTHER FINANCIAL LIABILITIES

Other financial liabilities mainly consist of unsecured investment notes payable carrying interest rate ranging between 5% to 9% and having maturity as follows:

	30 December 2018	*31 December 2017*
Repayable within twelve months	**105,905**	28,000
Repayable after twelve months	**36,730**	36,730
	142,635	64,730

17. PAYABLES AND OTHER CREDIT BALANCES

Payable and other credit balances comprise the following:

	31 December 2018	*31 December 2017*
Payable to clients	**257,026**	30,392
Payable against unsettled trades	**-**	41,091
Dividends payable	**33,488**	33,491
Repurchase agreements (a)	**49,188**	-
FVTPL liabilities	**8,559**	929
Supplier payables	**10,852**	539
Acquisition of subsidiaries (Note 33)	**90,458**	-
End of service benefits	**14,525**	9,695
Accruals	**14,670**	12,471
Provisions	**3,682**	559
Interest/profit payable	**9,552**	2,066
Other payables	**32,948**	4,081
	524,948	135,314

a) 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 12 and Note 9c) 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.

18. SHARE CAPITAL

Authorised, issued and fully paid share capital comprises 1,065,000,000 shares (31 December 2017 – 1,065,000,000 shares) of UAE Dirham 1.00 per share. Each share carries one vote and the right to receive dividends.

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 on 2 October 2018.

19. TREASURY SHARES

	31 December 2018	*31 December 2017*
Number of shares	**28,107,748**	2,348,004
Shares as percentage of total shares in issue	**2.6%**	0.2%
Cost of shares	**31,129**	5,341
Market value of shares	**23,048**	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.

During the year, the Company acquired 25,759,744 own shares for the total cost of 25,788.

(Currency - Thousands of U.A.E. Dirhams)

20. 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.

21. INVESTMENTS REVALUATION RESERVE

	31 December 2018	*31 December 2017*
Balance at beginning of the year	**(1,000)**	(468)
Impact of adopting IFRS 9 as of 1 January 2018 (Note 2.3)	**1,000**	-
Balance at 1 January (Adjusted opening as per IFRS 9)	**-**	(468)
Net movement in fair values during the year	**(19,022)**	(532)
NCI's share of investment revaluation reserve	**359**	-
Balance at end of the year	**(18,663)**	(1,000)

22. 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.

23. NET FEE AND COMMISSION INCOME

Fee and commission income and expense comprises the following:

	31 December 2018	*31 December 2017*
Fee and commission income	**95,093**	57,006
Fee and commission expense	**(1,643)**	(1,492)
	93,450	55,514

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

Gains/(losses) from SHUAA managed funds comprise the following:

	31 December 2018	*31 December 2017*
Investments held at FVTPL	**1,485**	280
Associates	**12,247**	(1,900)
	13,732	(1,620)

(Currency - Thousands of U.A.E. Dirhams)

25. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise the following:

	31 December 2018	*31 December 2017*
Employee salaries and fringe benefits	**(70,770)**	(52,785)
Professional fees	**(19,013)**	(13,268)
Administration, technology and communication	**(12,185)**	(7,641)
Office rent and related expenses	**(10,676)**	(7,095)
Corporate marketing and branding costs	**(4,408)**	(1,348)
Other	**(12,989)**	(8,328)
	(130,041)	(90,465)

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

As of 31 December 2018, the Group had a total of 365 employees (31 December 2017 – 182 employees) represented by 57 employees in the Parent company (31 December 2017 – 59 employees) and 308 employees in subsidiaries (31 December 2017 – 123 employees).

26. ALLOWANCES FOR IMPAIRMENT - NET

Charges and reversals were recognised in respect of the following:

	31 December 2018	*31 December 2017*
Loans, advances and finance leases - net	**(3,598)**	19,237
Allowances for doubtful receivables and other assets - net	**(1,390)**	4,038
Other	**(617)**	4,045
	(5,605)	27,320

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

Gains/(losses) from other investments are detailed as follows:

	31 December 2018	*31 December 2017*
Other associates	**13,971**	16,562
Other investments		
Held at FVTPL	**(4,679)**	12,469
FVOCI / Available for sale	-	(31)
	9,292	29,000

28. EARNINGS PER SHARE

Basic loss per share have been computed using the net profit attributable to the ordinary equity holders of the Parent 27,181 (31 December 2017 – 74,016) divided by the weighted average number of ordinary shares outstanding 1,058,767,650 (31 December 2017 – 1,065,000,000). Diluted earnings per share as of 31 December 2018 and 31 December 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.

(Currency - Thousands of U.A.E. Dirhams)

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 2018	*31 December 2017*
Receivables and other debit balances		
Associates	**3,584**	19,714
Key management personnel	**315**	108
Other related parties	**10,715**	4,219
Loans and advances		
Associates	**11,429**	20,245
Other related parties	**113,547**	1,326
Investments in SHUAA managed funds - Associates	**78,738**	66,491
Other investments including associates	**268,073**	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.

	31 December 2018	*31 December 2017*
Payables and other credit balances		
Other related parties	**163,670**	65,181

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

	31 December 2018	*31 December 2017*
Gains/(losses) from investments in SHUAA managed funds		
Associates and other related parties	**12,247**	(1,620)
Gains/(losses) from other investments		
Associates and other related parties	**7,231**	(14,529)
Fees and commission income		
Associates and other related parties	**6,363**	9,229
Interest income		
Associates and other related parties	**1,023**	2,844
Interest expense		
Other related parties	**(9,299)**	(2,654)
Provisions		
Other related parties	**-**	18,481

(Currency - Thousands of U.A.E. Dirhams)

29. RELATED PARTY TRANSACTIONS - continued

The compensation of the key management personnel of the Parent of the Group is as follows:

	31 December 2018	*31 December 2017*
Short term employee benefits	**(9,358)**	(12,484)
Termination benefits	**-**	(678)
	(9,358)	(13,162)

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 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 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.

(Currency - Thousands of U.A.E. Dirhams)

30. SEGMENTAL INFORMATION - continued

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.

	31 December 2018					
	Asset Management	Investment Banking	Capital Markets	Lending	Corporate	Total
Interest income	776	-	10,160	35,896	7,586	54,418
Net fee and commission income	44,841	8,102	33,950	2,365	4,192	93,450
Trading income	-	-	3,580	-	-	3,580
Gains from investments in SHUAA managed funds - net	1,485	-	-	-	12,247	13,732
Total revenues	**47,102**	**8,102**	**47,690**	**38,261**	**24,025**	**165,180**
General and administrative expenses	(23,530)	(3,632)	(39,896)	(31,429)	(31,554)	(130,041)
Interest expenses	-	-	(1,622)	(8,225)	(20,906)	(30,753)
Depreciation	(176)	-	(5,515)	(3,747)	(1,578)	(11,016)
Provisions - net	(729)	-	(161)	(3,183)	(1,532)	(5,605)
Total expenses	**(24,435)**	**(3,632)**	**(47,194)**	**(46,584)**	**(55,570)**	**(177,415)**
Net profit/(loss) before gains/(losses) from other investments	**22,667**	**4,470**	**496**	**(8,323)**	**(31,545)**	**(12,235)**
Gains from other investments	-	-	1,274	6,346	1,672	9,292
Negative goodwill on acquisition of subsidiary	-	-	31,446	-	-	31,446
Profit/(loss) for the year	**22,667**	**4,470**	**33,216**	**(1,977)**	**(29,873)**	**28,503**
Attributable to:						
Equity holders of the Parent	22,667	4,470	31,760	(1,977)	(29,739)	27,181
Non controlling interests	-	-	1,456	-	(134)	1,322
	22,667	**4,470**	**33,216**	**(1,977)**	**(29,873)**	**28,503**

	31 December 2018					
	Asset Management	Investment Banking	Capital Markets	Lending	Corporate	Total
Assets	86,951	885	695,918	508,026	826,045	**2,117,825**
Liabilities	8,846	-	242,630	174,335	762,258	**1,188,069**

(Currency - Thousands of U.A.E. Dirhams)

30. SEGMENTAL INFORMATION - continued

	31 December 2017					
	Asset Management	Investment Banking	Capital Markets	Lending	Corporate	Total
Interest income	1,440	-	2,060	65,284	5,641	74,425
Net fee and commission income	35,334	7,058	8,015	4,183	924	55,514
Trading income	-	-	6,295	-	-	6,295
Gains from investments in SHUAA managed funds - net	-	-	-	-	(1,620)	(1,620)
Total revenues	36,774	7,058	16,370	69,467	4,945	134,614
General and administrative expenses	(19,729)	(4,954)	(17,699)	(26,031)	(22,052)	(90,465)
Interest expenses	-	-	-	(16,087)	(2,722)	(18,809)
Depreciation	(89)	-	(2,394)	(4,033)	(1,128)	(7,644)
Provisions - net	-	(202)	375	1,391	25,756	27,320
Total expenses	(19,818)	(5,156)	(19,718)	(44,760)	(146)	(89,598)
Net profit/(loss) before losses from other investments	16,956	1,902	(3,348)	24,707	4,799	45,016
Losses from other investments	-	-	16	(2,565)	31,549	29,000
Profit/(loss) for the year	16,956	1,902	(3,332)	22,142	36,348	74,016
Attributable to:						
Equity holders of the Parent	16,956	1,902	(3,332)	22,142	36,348	74,016
Non controlling interests	-	-	-	-	-	-
	16,956	1,902	(3,332)	22,142	36,348	74,016

	31 December 2017					
	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.

(Currency - Thousands of U.A.E. Dirhams)

31. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following outstanding commitments and contingent liabilities:

	31 December 2018	*31 December 2017*
Contingent liabilities		
Performance guarantees	**9,533**	1,939
Other	**16,627**	-
	26,160	1,939

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

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

	31 December 2018	*31 December 2017*
Commitments		
SHUAA managed funds	**67,199**	67,199
Other	**147,008**	-
	214,207	67,199

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 2018, clients' assets amounting to 4.9 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.

33. BUSINESS COMBINATIONS

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	**90,458**
Non controlling interest acquired	**1,629**
Total	**149,793**

(Currency - Thousands of U.A.E. Dirhams)

33. BUSINESS COMBINATIONS - continued

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
Assets	
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**
Liabilities	
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.

	1 May 2018
Total consideration	**149,793**
Less: Fair value of identifiable net assets acquired	**(109,631)**
Goodwill arising on acquisition (Note 14)	**40,162**

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. Please refer to Note 14.

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**
	113,615

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

Profit amounting to 497 included in the profit of the Group. Revenue of the Group for year ended 31 December 2018 includes revenue of 16,165 for the period from 1 May 2018 (date of acquisition) to 31 December 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.

(Currency - Thousands of U.A.E. Dirhams)

33. BUSINESS COMBINATIONS - continued

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	**22,785**
Total	**146,810**

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;

	30 Sep 2018
Assets	
Cash and deposits with banks	**92,523**
Receivables and other debit balances	**11,629**
Other investments	**127,786**
Property and equipment	**4,301**
Intangible assets (g)	**37,161**
Liabilities	
Payables and other credit balances	**(11,561)**
Non Controlling interest	**(83,583)**
	178,256

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	**146,810**
Less: Fair value of identifiable net assets acquired	**(178,256)**
	(31,446)

(Currency - Thousands of U.A.E. Dirhams)

33. BUSINESS COMBINATIONS - continued

g) Intangible assets includes trademark valued at 1,734, customer relationships valued at 11,416 and trade licenses valued at 24,011 which were recognised as intangible assets as they meet the recognition criteria for identifiable intangible assets.

h) Amwal was consolidated based on the provisional values assigned to the identifiable assets and liabilities as at the acquisition date. Management have a period of one year from the acquisition date to update the valuation if further information becomes available.

i) Net cash outflow on acquisition of subsidiaries:

	30 Sep 2018
Consideration paid in cash	**(100,833)**
Cash and bank balances acquired	**92,523**
	(8,310)

j) Impact of acquisitions on the results of the Group:

Profit amounting to 552 included in the profit of the Group. Revenue of the Group for year ended 31 December 2018 includes revenue of 10,331 for the period from 1 October 2018 (date of acquisition) to 31 December 2018.

Had this business combination been effected at 1 January 2018, the revenue of the Group would have been higher by 45,203 and the profit for the period from continuing operations would have been higher by 5,543.

34. INVESTMENT IN SUBSIDIARIES

Below is the summarised financial information of Amwal International Investment Company KSCP (‘Amwal’), the only subsidiary in which there is a material non-controlling interests. The financial information represents balances before intra-group eliminations and any purchase price allocation adjustments.

	31 December 2018	*31 December 2017*
Statement of financial position		
Total assets	**308,115**	-
Total liabilities	**10,180**	-
Non-controlling interest	**83,925**	-
Net equity	**214,010**	-
Statement of income (since acquisition)		
Total revenue	**11,951**	-
Total profit	**2,444**	-
Non-controlling interest	**1,772**	-