

ADCB SECURITIES L.L.C.

**Reports and financial statements
for the year ended December 31, 2016**

Reports and financial statements
for the year ended December 31, 2016

	Page
Directors' report	1
Report of the independent auditor on the financial statements	2 - 4
Statement of financial position	5
Statement of profit or loss and other comprehensive income	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9 - 30

Directors' report

On behalf of the Board of Directors, I am pleased to present the audited financial statements of ADCB Securities L.L.C. (the "Company") for the year ended December 31, 2016.

Principal activities and nature of business

The principal activities of the Company include providing brokerage services pertaining to financial instruments and commodities, margin trading activity, financial consultation and financial analysis.

Financial results

The Company reported brokerage commission income for the year 2016 amounting AED 13,607 thousand (2015: AED 12,963 thousand).

Lending against margin trading increased significantly from AED 74,008 thousand to AED 311,482 thousand reflecting an increase of 320%, however this increase came in the latter part of 2016. Consequently average balances for margin lending went up from AED 70,000 thousand in 2015 to AED 207,000 thousand in 2016 reflecting an increase of 195%. As a result net interest income increased from AED 1,642 thousand in 2015 to AED 5,646 thousand in 2016 reflecting an increase of 244%.

Total income increased 32% from AED 14,655 thousand in 2015 to AED 19,274 thousand in 2016.

Total expenses of AED 16,833 thousand for 2016 reflect an increase of 4% over AED 16,191 in 2015.

Net profit for the year was at AED 2,441 thousand as compared to loss of AED 1,536 thousand in 2015. This increase in net profit can largely be attributed to increase in margin lending volumes.

Net worth at the end of 2016 was AED 130,483 thousand (2015: AED 128,034 thousand).

Directors

The directors who served during the year are:

Mr. Ala'a Mohamed Atta Khalil Eraiqat	Chairman
Mr. Hassan Salem Saeed Abdulla Al Hossani	Director
Mr. Ali Ahmed Ghulam Darwish Al Baloushi	Director
Mr. Al Sadig Muatasam Abdul Rahman Al Magboul	Director
Mr. Nabil F. A. Juma	Director

Auditors

Deloitte & Touche (M.E.) were external auditors of the Company for the year ended December 31, 2016 and the directors propose their re-appointment for the year ending December 31, 2017.

On behalf of the Board of Directors

.....
Ala'a Eraiqat
Chairman

Abu Dhabi
March 23, 2017

INDEPENDENT AUDITOR'S REPORT

The Shareholders
ADCB Securities L.L.C.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ADCB Securities LLC, Abu Dhabi ("the Company") which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 Company's financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Directors report, which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (continued)***Responsibilities of management and those charged with governance for the financial statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 management's 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. (2) of 2015, we report that:

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements of the Company have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Company has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Company's books of account;
- the Company has not purchased or invested in shares during the financial year ended 31 December 2016;
- note 16 to the financial statements of the Company discloses material related party transactions and the terms under which they were conducted; and
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016.

Deloitte & Touche (M.E.)




Signed by:
Mohammad Khamees Al Tah
Registration No. 717
23 March 2017
Abu Dhabi
United Arab Emirates



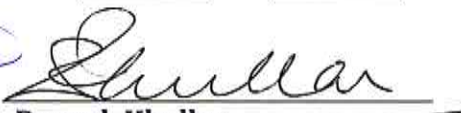
Statement of financial position

As at December 31, 2016

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Non-current assets			
Property and equipment	5	1,105	1,614
Available-for-sale financial assets	6	521	513
Total non-current assets		1,626	2,127
Current assets			
Trade and other receivables	7	93,615	57,938
Margin trade receivables	8	311,482	74,008
Bank balances	9	142,307	152,924
Total current assets		547,404	284,870
Total assets		549,030	286,997
EQUITY AND LIABILITIES			
Equity			
Share capital	10	71,000	71,000
Legal reserve	11	9,090	8,845
Investment revaluation reserve		92	84
Retained earnings		50,301	48,105
Total equity		130,483	128,034
Liabilities			
Non-current liabilities			
Long term borrowing	12	100,000	100,000
Provision for employees' end of service benefit	13	2,392	2,461
Total non-current liabilities		102,392	102,461
Current liabilities			
Trade and other payables	14	91,648	55,581
Bank overdraft	9	188,091	-
Due to Parent Company	16	36,416	921
Total current liabilities		316,155	56,502
Total liabilities		418,547	158,963
Total equity and liabilities		549,030	286,997


 Ala'a Eraiqat
 Chairman


 Hassan Salem Al Hossani
 General Manager


 Deepak Khullar
 Group Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income
for the year ended December 31, 2016

	Notes	2016 AED'000	2015 AED'000
Income			
Brokerage commission		13,607	12,963
Interest income	15	10,628	5,698
Interest expense		(4,982)	(4,056)
Net interest income		5,646	1,642
Other income		21	50
		<u>19,274</u>	<u>14,655</u>
Expenses			
Staff expenses		(11,905)	(10,846)
Depreciation	5	(1,052)	(1,022)
Other operating expenses		(3,876)	(4,323)
		<u>(16,833)</u>	<u>(16,191)</u>
Net profit / (loss) for the year		2,441	(1,536)
Other comprehensive income			
<i>Items that may be re-classified subsequently to profit or loss</i>			
Fair value changes on available-for-sale financial assets	6	8	(312)
Total comprehensive income / (loss) for the year		2,449	(1,848)

The accompanying notes are an integral part of these financial statements.

ADCB Securities L.L.C.

Statement of changes in equity for the year ended December 31, 2016

	Notes	Share capital AED'000	Legal reserve AED'000	Investment revaluation reserve AED'000	Retained earnings AED'000	Total equity AED'000
Balance at January 1, 2015		71,000	8,845	396	49,641	129,882
Net loss for the year		-	-	-	(1,536)	(1,536)
Fair value changes on available for sale financial assets	6	-	-	(312)	-	(312)
Total comprehensive loss for the year		-	-	(312)	(1,536)	(1,848)
Balance at January 1, 2016		71,000	8,845	84	48,105	128,034
Net profit for the year		-	-	-	2,441	2,441
Fair value changes on available for sale financial assets	6	-	-	8	-	8
Total comprehensive income for the year		-	-	8	2,441	2,449
Transfer during the year		-	245	-	(245)	-
Balance at December 31, 2016		71,000	9,090	92	50,301	130,483

The accompanying notes are an integral part of these financial statements.

Statement of cash flows

for the year ended December 31, 2016

	2016 AED'000	2015 AED'000
Operating activities		
Net profit/(loss) for the year	2,441	(1,536)
Adjustment for:		
Depreciation on property and equipment	1,052	1,022
Employees' end of service benefit charge	306	436
Operating cash flows before changes in operating assets and liabilities	3,799	(78)
(Increase)/decrease in trade and other receivables	(35,677)	15,724
(Increase)/decrease in margin trade receivables	(237,474)	359
Net movement in due to Parent Company	35,495	3,909
Increase/(decrease) in trade and other payables	36,067	(18,239)
Settlement of employees' end of service benefit	(375)	(30)
Net cash (used in)/generated from operating activities	(198,165)	1,645
Investing activities		
Purchase of property and equipment	(543)	(120)
Investment in term deposits, net	(50,000)	(50,000)
Net cash used in investing activities	(50,543)	(50,120)
Net decrease in cash and cash equivalents	(248,708)	(48,475)
Cash and cash equivalents at beginning of the year	102,924	151,399
Cash and cash equivalents at end of the year (note 9)	(145,784)	102,924

The accompanying notes are an integral part of these financial statements.

1 Activities and area of operations

ADCB Securities L.L.C. (the "Company") is a limited liability company incorporated in the Emirate of Abu Dhabi, United Arab Emirates (U.A.E.). The Company was established on February 7, 2005 and commenced its operations on May 14, 2005 and is a wholly owned subsidiary of Abu Dhabi Commercial Bank (the "Parent Company"), a public joint stock company incorporated and registered in the U.A.E. The registered head office of the Company is at Level 5, Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C-33, Sector E-11, P.O. Box 939, Abu Dhabi, U.A.E.

The Company is registered as a brokerage company in accordance with U.A.E. Federal Law No. 4 of 2000. The principal activities of the Company are to provide brokerage services pertaining to financial instruments and commodities, margin trading activity, financial consultation and financial analysis.

As disclosed in Notes 7 and 16, the Company conducts a significant portion of its business through its Parent company and customers who hold current accounts with ADCB.

The UAE Federal Law No. (2) of 2015 which came into effect on July 1, 2015 replaced the existing UAE Federal Law No. (8) of 1984 (as amended). The Company is currently assessing the impact of the new law and expects to be fully compliant on or before the end of grace period on June 30, 2017.

2 Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Company has applied a number of new and revised IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2016. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Company's future transactions or arrangements.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2016.

2. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)

Standards and Interpretations in issue but not yet effective

The Company has not early adopted any new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Company:	Effective for annual periods beginning on or after
Amendments to IFRS 7 - Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 - Financial Instruments: Disclosures additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014) issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.	January 1, 2018
A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:	
Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.	
Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised	
Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.	
Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	

2. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)**Standards and Interpretations in issue but not yet effective (continued)**

New standards and significant amendments to standards applicable to the Company:	Effective for annual periods beginning on or after
<p>IFRS 15 Revenue from Contracts with Customers - In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.</p> <p>The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:</p> <p>Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</p> <p>Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.</p>	January 1, 2018
<p>IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p>	January 1, 2019
<p>Annual Improvements to IFRS Standards 2014 – 2016 cycle amending IFRS 1, IFRS 12 and IAS 28</p>	<p>The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017</p>

Notes to the financial statements

December 31, 2016

2. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)**Standards and Interpretations in issue but not yet effective (continued)**

New standards and significant amendments to standards applicable to the Company:	Effective for annual periods beginning on or after
Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealised losses	January 1, 2017
Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
<p>IFRIC 22 Foreign Currency Transactions and Advance Consideration - the interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> - there is consideration that is denominated or priced in a foreign currency; - the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and - the prepayment asset or deferred income liability is non-monetary. 	January 1, 2018
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions	January 1, 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018
Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.	January 1, 2018
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these IFRSs and amendments will be adopted in the financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

3 Summary of significant accounting policies

3.1 Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Certain disclosure notes have been reclassified and rearranged from the Company's prior year financial statements to conform to the current year's presentation.

3.2 Measurement

The financial statements have been prepared under the historical cost convention except as modified by the revaluation of available-for-sale financial assets.

3.3 Functional and presentation currency

The financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Company's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

3.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

3.5 Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the reporting date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either income statement or other comprehensive income statement depending upon the nature of the asset or liability.

3 Summary of significant accounting policies (continued)**3.6 Financial instruments****Initial recognition**

All financial assets and liabilities are initially recognised on the date at which the Company becomes a party to the contractual provision of the instrument except for “regular way” purchases and sales of financial assets which are recognised on settlement date basis (other than derivative contracts). Settlement date is the date that the Company physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Company classify its financial assets into the categories of ‘loans and receivables’ and ‘available-for-sale’ financial assets. Financial liabilities are classified as ‘other financial liabilities’.

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value, plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost are recognised immediately in profit or loss.

Loans and receivables

Loans and receivables include non-derivative financial assets originated or acquired by the Company with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. The Company’s loans and receivables include ‘trade and other receivables’, ‘margin trade receivables’ and ‘bank balances’.

After initial measurement at fair value plus any directly attributable transaction costs, loans and receivables are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the income statement.

Available-for-sale

Investments not classified as either “fair value through profit or loss” or “held-to-maturity” are classified as “available-for-sale”. Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

Available-for-sale assets are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Company establishes fair value by using valuation techniques (e.g. recent arms length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

3 Summary of significant accounting policies (continued)**3.6 Financial instruments (continued)****Available-for-sale (continued)**

Gains and losses arising from changes in fair value are recognised in the other comprehensive income and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in the income statement. Where the asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the income statement for the year.

If an available-for-sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement is removed from equity and recognised in the income statement.

Once an impairment loss has been recognised on an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating in equity. A subsequent decline in the fair value of the instrument is recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security. Impairment losses recognised on the equity security are not reversed through the income statement.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity if, and only if, both conditions (a) and (b) below are met.

- (a) The instrument includes no contractual obligation:
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.
- (b) If the instrument will or may be settled in the Company's own equity instruments, it is:
 - a non-derivative that includes no contractual obligation for the Company to deliver a variable number of its own equity instruments; or
 - a derivative that will be settled only by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Debt issued and other borrowed funds

Financial instruments issued by the Company are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These are recognised initially at fair value, net of transaction costs.

3 Summary of significant accounting policies (continued)**3.6 Financial instruments (continued)****Debt issued and other borrowed funds (continued)**

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial assets and financial liabilities**Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (a) the rights to receive cash flows from the asset have expired; or
- (b) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - the Company has transferred substantially all the risks and rewards of the asset, or
 - the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has neither transferred its rights to receive cash flows from an asset nor has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in income statement.

3 Summary of significant accounting policies (continued)**3.6 Financial instruments (continued)****Offsetting**

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Company intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

The Company is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities but, where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented on a gross basis.

3.7 Cash and cash equivalents

Cash and cash equivalents include 'bank balances', 'term deposits' with an original maturity period of up to three months and 'bank overdraft' and are carried at amortised cost in the statement of financial position.

3.8 Fair value measurement

The Company measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Company considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

3.9 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3 Summary of significant accounting policies (continued)**3.10 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is charged to the income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value.

Estimated useful lives are as follows:

Lease hold improvement	5 to 10 years
Computer, software and office equipment	4 years
Furniture and fixtures	5 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the income statement.

3.11 Provision for employees' end of service benefits**(i) Employees' end of service benefits**

The Company provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employee's length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E and GCC citizens are made by the Company in accordance with Federal Law No. 7 of 1999.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.12 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Brokerage commission revenue is recognised when the service has been rendered and when the Company's right to receive the income has been established. The commissions are recognised on a net basis, i.e. commission earned from customers less commission collected on behalf of the exchange. The Company believes this the most appropriate presentation because it acts as an agent in the transaction, rather than as principal.

3 Summary of significant accounting policies (continued)

3.12 Revenue and expense recognition (continued)

Interest income and expense are accrued on a time and proportion basis, by reference to principal outstanding and at the effective interest rate applicable.

Dividends on equity instruments are recognised in income statement when the Company's right to receive the dividends is established.

4 Significant accounting judgments, estimates and assumptions

While applying the accounting policies as stated in Note 3, the management of the Company makes judgements, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The significant judgements and estimate made by management are summarised as follows:

Classification of equity securities

As described in Note 3, investments are classified as available for sale. In judging whether investments are available for sale, management has considered the detailed criteria for determination of such classification as set out in IAS 39 *"Financial Instruments: Recognition and Measurement"*.

Revenue recognition

Note 3.12 describes the Company's general policy of recognising revenue when the service has been rendered and when the Company's right to receive the income has been established. In making their judgement, the management considered the detailed criteria for the recognition of revenue from the rendering of services as set out in IAS 18. The management is satisfied that the services are rendered and that recognition of the revenue in the current year is appropriate.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, is discussed below:

Impairment of trade and margin receivables

Management has estimated the recoverability of trade and margin receivable balances and has considered any allowance required for doubtful receivables. Management has estimated the allowance for doubtful receivables on the basis of prior experience, the current economic environment and other conditions including customer credit-worthiness, the personal guarantee of owner, undertakings of specific customers and the net realisable value of customer portfolios which the Company has the ability to liquidate under current market regulations. Margin and trade receivables that have been assessed individually and found not to be impaired are then assessed collectively and impairment charge is calculated collectively as a percentage of receivable outstanding.

4 Significant accounting judgments, estimates and assumptions (continued)

Impairment of available for sale financial asset

Management regularly reviews the equity securities for impairment based on criteria that include the extent to which carrying value exceeds market value, the duration of that market decline, management's intent and ability to hold to recovery and the financial health and specific prospects for the issuer. Management performs comprehensive market research and analysis and monitors market conditions to identify potential impairments. When market value is significantly reduced as compare to cost, or the decline is for a prolong period, the financial asset is considered as impaired.

Useful lives and residual values of property and equipment

The useful lives and residual values of the property and equipment are based on management's judgement of the historical pattern of useful lives and the general standards in the industry. As described in Note 3 above, the useful lives and residual values are reviewed for reasonableness by management on an annual basis.

Notes to the financial statements

December 31, 2016

5 Property and equipment

	Leasehold improvement AED'000	Computer, software and office equipment AED'000	Furniture and fixtures AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At January 1, 2015	6,290	7,439	2,484	-	16,213
Additions	-	34	86	-	120
Write off	-	(40)	-	-	(40)
At January 1, 2016	6,290	7,433	2,570	-	16,293
Additions	-	342	28	173	543
Write off	-	(18)	(14)	-	(32)
At December 31, 2016	6,290	7,757	2,584	173	16,804
Accumulated depreciation					
At January 1, 2015	4,738	6,503	2,456	-	13,697
Charge for the year	625	374	23	-	1,022
Write off	-	(40)	-	-	(40)
At January 1, 2016	5,363	6,837	2,479	-	14,679
Charge for the year	620	397	35	-	1,052
Write off	-	(18)	(14)	-	(32)
At December 31, 2016	5,983	7,216	2,500	-	15,699
Carrying amount					
At December 31, 2016	307	541	84	173	1,105
At December 31, 2015	927	596	91	-	1,614

6 Available-for- sale financial assets

	2016 AED'000	2015 AED'000
Quoted		
Balance as at January 1	513	825
Change in fair value	8	(312)
Balance as at December 31	521	513

The above represents an investment of 416,341 shares in Dubai Financial Market P.J.S.C.

7 Trade and other receivables

	2016 AED'000	2015 AED'000
Trade receivables from customers	88,431	49,248
Receivables from exchanges	1,721	5,242
Other receivable	3,463	3,448
	<hr/>	<hr/>
	93,615	57,938
	<hr/>	<hr/>

Trade receivables

The credit period for trade receivables is two days (trade date plus two working days). The Company has an obligation to pay these amounts to the eventual recipient (markets), even if the equivalent amounts are not collected.

The fair value of trade and other receivables approximates their carrying value.

Before accepting any new customer, it is the Company policy that customers hold current accounts with Abu Dhabi Commercial Bank (ADCB), the Parent company.

8 Margin trade receivables

The Company has obtained the license from Securities & Commodities Authority (SCA) under registration no. 604028 dated November 24, 2013 for margin trading, whereby the Company would provide finance to its clients as a percentage of the market value of securities. These securities are considered as collateral. Additional cash or securities have to be contributed by the borrower, if the price of a stock financed on margin drops below the specified limit or otherwise the Company is allowed to liquidate the collateral. The financing arrangements are short term and interest bearing.

	2016 AED'000	2015 AED'000
Margin trade receivables	312,554	75,080
Less : Collective impairment allowance	(1,072)	(1,072)
	<hr/>	<hr/>
Margin trade receivables, net	311,482	74,008
	<hr/>	<hr/>

The fair value of margin trade receivables approximates their carrying value.

The fair value of securities held as collateral against margin trade receivables amounts to AED 789,494 thousand as at 31 December 2016 (2015: AED 194,087 thousand).

9 Bank balances

	2016	2015
	AED'000	AED'000
Current accounts	42,307	42,924
Term deposits	100,000	110,000
	<hr/>	<hr/>
Term deposits with maturity of more than 3 months	142,307	152,924
	(100,000)	(50,000)
	<hr/>	<hr/>
	42,307	102,924
Bank overdraft	(188,091)	-
	<hr/>	<hr/>
Cash and cash equivalents	(145,784)	102,924
	<hr/>	<hr/>

10 Share capital

	Authorised		Issued and fully paid	
	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000
Ordinary shares of AED 1,000 each	71,000	71,000	71,000	71,000
	<hr/>	<hr/>	<hr/>	<hr/>

11 Legal reserve

In accordance with the UAE Federal Law No. (2) of 2015 and the Company's Articles of Association, the Company has established a legal reserve by appropriation of 10% of the annual net profits until the reserve equals to 50% of the share capital. This reserve is not available for distribution.

12 Long term borrowing

The Company borrowed subordinated long term debt on May 20, 2014 from its parent company for a period of 5 years. Interest on this loan is payable quarterly in arrears at a fixed rate of 4% p.a.. The Company has an option to repay prior to maturity date subject to SCA approval.

This debt qualifies as tier 2 Capital as per SCA Board decision No. 12/R of 2010 dated 24 February 2010 concerning criteria for capital adequacy of brokerage firms.

Notes to the financial statements

December 31, 2016

13 Provision for employees' end of service benefit

	2016 AED'000	2015 AED'000
Balance as at January 1,	2,461	2,055
Charge for the year	306	436
Settlements during the year	(375)	(30)
	<hr/>	<hr/>
Balance as at December 31,	2,392	2,461
	<hr/> <hr/>	<hr/> <hr/>

14 Trade and other payables

	2016 AED'000	2015 AED'000
Trade payables to customers	59,059	52,005
Payable to exchanges	30,898	2,338
Other payables	1,691	1,238
	<hr/>	<hr/>
	91,648	55,581
	<hr/> <hr/>	<hr/> <hr/>

Trade payable to customers consist of only those customers maintaining a current account with ADCB, the Parent company. The settlement date of these balances is two days following the transaction date, and is settled to the customer through their ADCB's current account.

15 Interest income

	2016 AED'000	2015 AED'000
Interest income - margin trading	8,675	4,562
Interest income - term & call deposits	1,953	1,136
	<hr/>	<hr/>
	10,628	5,698
	<hr/> <hr/>	<hr/> <hr/>

16 Transactions and balances with related parties

The Company enters into transactions with the Parent Company and its related entities, directors and senior management of the Parent Company, related entities of the directors and senior management of the Parent Company, the Government of Abu Dhabi ("Ultimate Controlling Party") and its related entities and directors of the Company in the ordinary course of business at an arm's length basis.

Abu Dhabi Investment Council is the Parent Company of ADCB. Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the Ultimate Controlling Party is the Government of Abu Dhabi.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

Notes to the financial statements

December 31, 2016

16 Transactions and balances with related parties (continued)

Related party balances and transactions included in the statement of financial position and statement of profit or loss and other comprehensive income are as follows:

	Parent Company and its related entities AED'000	Directors and key management personnel of the Company AED'000
Balances :		
December 31, 2016		
Margin trade receivables	-	1,705
Bank balances with Parent Company :		
Term deposits	100,000	-
Current account	4,359	-
Bank overdraft	(188,091)	-
Due to Parent Company	(36,416)	-
Long term borrowing	(100,000)	-
December 31, 2015		
Margin trade receivables	-	8,661
Bank balances with Parent Company :		
Term deposit	110,000	-
Current account	42,883	-
Due to Parent Company	(921)	-
Long term borrowing	(100,000)	-
Transactions :		
Year ended December 31, 2016		
Brokerage commission	176	202
Interest income	1,953	159
Interest expense	(4,982)	-
Commission expense on bank guarantee	(990)	-
Rent expense	(233)	-
Year ended December 31, 2015		
Brokerage commission	122	329
Interest income	1,136	490
Interest expense	(4,056)	-
Commission expense on bank guarantee	(1,526)	-
Rent expense	(233)	-

The Parent Company provides operational support to the Company with respect to human resources, information technology, vendor payments and accounting services.

Notes to the financial statements

December 31, 2016

16 Transactions and balances with related parties (continued)

Remuneration of key management employees and Board of Directors fees and expenses during the year are as follows:

	2016 AED'000	2015 AED'000
Short term benefits	1,319	1,310
Termination benefits	163	217
Variable pay benefits	278	278
	<u>1,760</u>	<u>1,805</u>

In addition to the above, the key management personnel were granted long term deferred compensation including share based payments of AED 122.5 thousand (2015 - AED 122.5 thousand).

17 Commitments and contingent liabilities

	2016 AED'000	2015 AED'000
Bank guarantees	355,000	305,000

As per SCA regulations, a broker is required to have an enforceable bank guarantee payable to respective stock markets. The above bank guarantees have been issued by the Parent Company.

18 Risk management

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement, mitigation and monitoring subject to risk limits and other controls. This process of risk management is critical to the Company's long-term profitability and sustainability. The major categories of risk faced by the Company are grouped into credit risks, liquidity risks, market risks and operational risks.

The Company's executive management function supports the business activities of the Company by ensuring that sufficient liquidity is maintained at all times, and by deploying liquid balances at optimum rates, within the risk parameters set by management and the governing laws and regulations.

18.1 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company, and arises principally from the Company's trade and other receivables, margin trade receivables and bank balances. The Company has adopted a policy of only dealing with creditworthy counterparties and with customers holding a current account with ADCB, the Parent company, for whom the credit risk is assessed to be low. Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries.

Notes to the financial statements

December 31, 2016

18 Risk management (continued)**18.1 Credit risk (continued)**

The company is exposed to credit risk on margin trading receivables, however these receivables are fully backed by collateral of underlying securities. The Company has a right to liquidate the collateral when customer reaches below the required minimum margin.

18.2 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. ADCB is the major source of funding for the Company and liquidity risk for the Company is assessed to be low.

The table below summarises the maturity profile of the Company's assets and liabilities based on contractual repayment obligations. The contractual maturities of the financial assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

December 31, 2016	0-30 days AED'000	31-90 days AED'000	91-180 days AED'000	Over 180 days AED'000	Total AED'000
Property and equipment	-	-	-	1,105	1,105
Available for sale financial assets	-	-	-	521	521
Trade and other receivables	93,615	-	-	-	93,615
Margin trade receivables	311,482	-	-	-	311,482
Bank balances	42,307	-	-	100,000	142,307
	447,404	-	-	101,626	549,030
Equity	-	-	-	130,483	130,483
Long term borrowing	-	-	-	100,000	100,000
Provision for employees' end of service benefit	-	-	-	2,392	2,392
Trade and other payables	91,648	-	-	-	91,648
Due to Parent Company	36,416	-	-	-	36,416
Bank overdraft	188,091	-	-	-	188,091
	316,155	-	-	232,875	549,030
Liquidity gap	131,249	-	-	(131,249)	-

Notes to the financial statements

December 31, 2016

18 Risk management (continued)
18.2 Liquidity risk

December 31, 2015	0-30 days AED'000	31-90 days AED'000	91-180 days AED'000	Over 180 days AED'000	Total AED'000
Property and equipment	-	-	-	1,614	1,614
Available for sale financial assets	-	-	-	513	513
Trade and other receivables	57,938	-	-	-	57,938
Margin trade receivables	74,008	-	-	-	74,008
Bank balances	152,924	-	-	-	152,924
	<u>284,870</u>	<u>-</u>	<u>-</u>	<u>2,127</u>	<u>286,997</u>
Equity	-	-	-	128,034	128,034
Long term borrowing	-	-	-	100,000	100,000
Provision for employees' end of service benefit	-	-	-	2,461	2,461
Trade and other payables	55,581	-	-	-	55,581
Due to Parent Company	921	-	-	-	921
	<u>56,502</u>	<u>-</u>	<u>-</u>	<u>230,495</u>	<u>286,997</u>
Liquidity gap	<u>228,368</u>	<u>-</u>	<u>-</u>	<u>(228,368)</u>	<u>-</u>

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligations.

December 31, 2016	0-30 days AED'000	31-90 days AED'000	91-180 days AED'000	Over 180 days AED'000	Total AED'000
Trade and other payables	91,648	-	-	-	91,648
Due to Parent company	36,416	-	-	-	36,416
Bank overdraft	188,091	-	-	-	188,091
Long term borrowing	-	988	1,011	107,667	109,667
	<u>316,155</u>	<u>988</u>	<u>1,011</u>	<u>107,667</u>	<u>425,822</u>
December 31, 2015					
Trade and other payables	55,581	-	-	-	55,581
Due to Parent company	921	-	-	-	921
Long term borrowing	-	1,000	1,022	111,622	113,644
	<u>56,502</u>	<u>1,000</u>	<u>1,022</u>	<u>111,622</u>	<u>170,146</u>

18 Risk management (continued)**18.3 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 Company does not maintain a significant portfolio of interest bearing assets and liabilities and quoted and unquoted securities whereby it is exposed to market risk, as its main activity is to provide Brokerage Services pertaining to financial instruments and commodities.

18.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed materially to currency risk as majority of the assets and liabilities are denominated in the reporting currency AED.

18.5 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the net interest income of the Company. However, the Company exposure does not contain variable interest bearing assets/liabilities that have a significant impact on its interest income/ interest expenses.

18.6 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit and taking insurance coverage to cover possible insurable operational risks.

18.7 Capital adequacy and capital management

The Company manages its capital as per Emirates Securities and Commodities Authorities (ESCA) circular (12/R) of 2010. For the purposes of calculating the capital adequacy of the brokerage firm in accordance with the provisions of this circular "capital" shall mean the following:

1. Core capital (Tier 1): includes equity and capital contributions by the shareholders and the revaluation reserve, after deducting losses during the running fiscal year, as well as intangible assets.
2. Supplementary capital (Tier 2): includes subordinated debt instruments, the maturity dates of which are no less than five years.
3. Tertiary Capital (Tier 3): includes the profits of the trading portfolio of the brokerage firm and subordinated debt instruments, the maturity dates which are not less than two years, after deduction of non-liquid assets.

Capital requirement for credit risk and operational risk is calculated using the methodology as defined by ESCA in the abovementioned circular. For operational risk, the Company uses basic indicator approach to calculate the capital requirement.

18 Risk management (continued)**18.7 Capital adequacy and capital management**

	2016	2015
	AED'000	AED'000
Tier 1 Capital	130,391	129,658
Tier 2 Capital	100,092	100,084
Tier 3 Capital	-	-
	<hr/>	<hr/>
Total	230,483	229,742
	<hr/>	<hr/>
Capital requirement		
Credit risk	54,287	19,702
Operational risk	4,048	3,542
	<hr/>	<hr/>
Total Capital requirement	58,335	23,244
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18.8 Fair value of financial instruments

Management considers that the carrying amounts of financial assets and liabilities in the financial statements approximate their fair values.

Financial assets classified as available-for-sale are carried at fair value using the quoted prices (unadjusted) in active market. These are classified as Level 1 of fair value hierarchy.

19 Approval of financial statements

The financial statements were approved by the board and authorised for issue on March 23, 2017.