Emirates NBD Securities LLC

Financial statements

For the year ended 31 December 2019

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of Emirates NBD Securities LLC (the "Company") for the year ended 31 December 2019.

Financial Results

The Company has reported a net loss of AED 4.49 million for the year ended 31 December 2019 (2018: net loss of AED 4.72 million).

Total equity holders' funds amount to AED 95.59 million as at 31 December 2019 (2018: AED 100.08 million).

Directors

The Directors of the Company during the year (and to date of this report) were as follows:

Mr. Salah Amin	Chairman
Mr. Ahmed Al Qassim	Member
Ms. Saod Obaidalla	Member
Mr. Fahad Al Qassim	Member
Mr. Ammar Al Haj	Member

Auditors

Deloitte & Touche (M.E.) were appointed as Auditors of Emirates NBD Securities LLC at the Emirates NBD Group Annual General Meeting held on 20 February 2019.

On behalf of the Board

Salah Amin
Chairman

Dubai, UAE

Date: 19 March 2020

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Emirates NBD Securities LLC
Dubai
United Arab Emirates

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Emirates NBD Securities LLC** (the "Company"), **Dubai, United Arab Emirates** which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of comprehensive income, statement of changes in equity and 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 financial statements present fairly, in all material respects, the financial position of the Company, as at 31 December 2019, and its financial performance and 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 (the "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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 27 February 2019.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Board of Director's report of the Company. We obtained the Board of Directors' report prior to the date of this auditor's 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.

Cont'd…

Other information (continued)

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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with applicable provisions of 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.

Those charged with governance 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 ISAs, we exercise professional judgment 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 risks, 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 controls.

- Obtain an understanding of internal controls 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 controls.

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emirates NBD Securities LLC (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence 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 disclosures 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 represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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 have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- Investments in shares and stocks during the year ended 31 December 2019, if any, are disclosed in note 8 to the financial statements;
- Note 11 to the financial statements discloses material related party transactions and the terms under which they were conducted;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2019 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 2019; and
- Note 15 discloses the social contributions made during the year.

Further, as required by UAE Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No. 1141
19 March 2020
Dubai
United Arab Emirates

EMIRATES NBD SECURITIES LLC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	**2019 AED '000**	2018 AED '000
Assets			
Property and equipment	7	2,965	336
Investment securities	8	263	263
Total non-current assets		3,228	599
Cash and bank balances	12	120,840	119,124
Trade and other debtors	9	147	135
Other receivables	10	3,953	3,860
Total current assets		124,940	123,119
Other payables	13	10,800	10,064
Due to holding company	11	16,995	7,646
Client deposit		4,782	5,927
Total current liabilities		32,577	23,637
Net current assets		92,363	99,482
Net assets		95,591	100,081
Represented by			
Share capital	14	36,000	36,000
Statutory reserve	14	18,804	18,804
Capital contribution reserve	14	50,000	50,000
Accumulated losses		(9,213)	(4,723)
Total equity holders' funds		95,591	100,081

The notes on pages 9 to 28 form an integral part of these financial statements.

The independent auditors' report is set out on page 2 to 4.

These financial statements were approved by the Board of Directors of Emirates NBD Securities LLC on ________________ and signed on their behalf by:

Chairman

General Manager

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019 AED '000**	2018 AED '000
Commission income		7,846	8,661
Administrative and general expenses	15	(14,316)	(14,351)
Operating loss		(6,470)	(5,690)
Other expense, net	16	(595)	(1,207)
Interest received from holding company	11	2,575	2,174
Loss for the year		(4,490)	(4,723)
Other comprehensive Income / (loss)		-	-
Total comprehensive loss for the year		(4,490)	(4,723)

The notes on pages 9 to 28 form an integral part of these financial statements.

The independent auditors' report is set out on page 2 to 4.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 AED '000	2018 AED '000
OPERATING ACTIVITIES			
Loss for the year		(4,490)	(4,723)
Adjustments for non-cash items			
Depreciation	15	519	90
Operating loss before changes in operating assets and liabilities		(3,971)	(4,633)
Change in trade and other debtors		(12)	12
Change in other receivables		(93)	(779)
Change in due to holding company		9,349	7,645
Change in other payables		(481)	146
Net cash flows from operating activities		4,792	2,391
INVESTING ACTIVITIES			
Acquisition of property and equipment		(1,931)	(35)
Placement of short term deposits		(695)	(25,000)
Net cash flows used in investing activities		(2,626)	(25,035)
FINANCING ACTIVITIES			
Dividends Paid		-	(6,483)
Net cash flows used in financing activities		-	(6,483)
Net increase / (decrease) in cash and cash equivalents		2,166	(29,127)
Cash and cash equivalents at the beginning of the year		88,197	117,324
Cash and cash equivalents at the end of the year	12	90,363	88,197

The notes on pages 9 to 28 form an integral part of these financial statements.

The independent auditors' report is set out on page 2 to 4.

	Share capital AED'000	Statutory reserve AED '000	Capital contribution reserve AED '000	Accumulated Losses AED '000	Total AED'000
Balance at 1 January 2019	36,000	18,804	50,000	(4,723)	100,081
Total comprehensive loss	-	-	-	(4,490)	(4,490)
Balance at 31 December 2019	36,000	18,804	50,000	(9,213)	95,591
Balance at 1 January 2018	36,000	18,804	50,000	6,483	111,287
Total comprehensive loss	-	-	-	(4,723)	(4,723)
Dividends Paid	-	-	-	(6,483)	(6,483)
Balance at 31 December 2018	36,000	18,804	50,000	(4,723)	100,081

The notes on pages 9 to 28 form an integral part of these financial statements.

The independent auditors' report is set out on page 2 to 4.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Emirates International Securities LLC ("the Company") is a limited liability company incorporated in the emirate of Dubai on 10 November 2001. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the Federal Law No. 8 of 1984. On 8 November 2009, the Company received regulatory approval to merge with NBD Securities LLC ("acquired entity") and changed its name from Emirates International Securities LLC to Emirates NBD Securities LLC.

On 21 November 2009 (the effective date), NBD Securities LLC transferred all its assets and liabilities to the Company to complete the merger of the two entities.

The share holding pattern in the Company is as follows:

Name of equity holders	Shareholding (%)
Emirates NBD Bank PJSC ("Holding Company")	99%
Emirates NBD Capital PSC	1%

Following the merger of Emirates Bank International PJSC and the National Bank of Dubai PJSC during 2007, the Company's ultimate holding company is Emirates NBD Bank PJSC, a Bank in which the Investment Corporation of Dubai is the majority shareholder.

The principal activity of the Company is to act as an intermediary in dealings in shares, stocks, debentures and securities.

The registered address of the Company is P.O. Box 2923, Dubai, U.A.E.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the U.A.E.

(b) Basis of measurement

These financial statements are prepared under the historical cost convention, except for investment securities designated at Fair Value Through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) which are measured at fair value. The methods used to measure fair value are discussed further in note 4.

(c) Functional and presentation currency

These financial statements are presented in UAE Dirhams ("AED"), which is the functional currency of the Company, rounded to the nearest thousands, except unless otherwise stated.

2 Basis of preparation (continued)

(d) Use of estimates and judgments

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

The preparation of the financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Financial instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2019 are:

- 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 profit of the principal amount outstanding.

- Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

(e) Changes in accounting policies

The Company has consistently applied the accounting policies as set out in note 3 to all periods presented in these financial statements, except the following accounting policies which are applicable from 1 January 2019:

(i) IFRS 16 Leases

The company has adopted IFRS 16 'Leases', issued in January 2016, with the date of initial application of 1 January 2019. IFRS 16 introduces significant changes to lessee accounting. It removes the distinction between operating leases and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases and leases of low value assets.

Lessee accounting

The company initially measures the right-of-use asset at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

2 Basis of preparation (continued)

e) Changes in accounting policies (continued)

(i) IFRS 16 Leases (continued)

The company initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The company has elected to apply the expedient allowed by IFRS 16 on its general requirements to short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets. For this the company recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee's benefits, similar to the current accounting for operating leases.

The company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. The company has assessed that the impact of IFRS 16 is not material on retained earnings as at the reporting date and has presented right of use assets amounting to AED 1.432 million within 'Property and equipment' and lease liabilities amounting to AED 1.217 million within 'Other payables' in the statement of financial position.

3 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Revenue recognition

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Interest income is recognised in the statement of income for all instruments measured at amortised cost using the effective interest method.

Realised gains and losses on investments sold are determined using the average cost basis and are disclosed net of sales commission.

Commission income

The Company earns commission income on those transactions in which it acts as an agent. Commission income is recognised on an accrual basis when the right to receive is established.

3 Significant accounting policies (continued)

(b) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in statement of income.

Useful lives of property and equipment

The Group's Management determines the estimated useful lives of its property and equipment for calculating depreciation as the policies of the Company are in line with the Group's policies. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates. Estimated useful lives are as below:

Freehold improvements	10 years
Leasehold improvements	7 years
Office equipment	5 years
Computers	4 years

Capital work in progress is stated at cost. When completed, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Company's policies.

(c) Financial instruments

- Classification of financial assets and financial liabilities

  On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or 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 profit on the principal amount outstanding.

3 Significant accounting policies (continued)

c) Financial Instruments (continued)

- Classification of financial assets and financial liabilities (continued)

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 other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Business model assessment:

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company'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 the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and profit:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' 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 financings risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3 Significant accounting policies (continued)

c) Financial Instruments (continued)

- Classification of financial assets and financial liabilities (continued)

  In assessing whether the contractual cash flows are solely payments of principal and profit, the Company 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 Company considers:

  - contingent events that would change the amount and timing of cash flows;
  - leverage features;
  - prepayment and extension terms;
  - terms that limit the Company'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 profit rate.

- Reclassification:

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

- Impairment

  The Company recognises loss allowances for ECL on financial instruments that are not measured at FVTPL, primarily financial assets that are financing instruments.

  The Company measures loss allowances at an amount equal to lifetime ECL. For financial instruments on which credit risk has not increased significantly since their initial recognition, loss allowances are measured at 12 month ECL.

  12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

- Cash and cash equivalents

  Cash and cash equivalents comprises cash and bank balances with the Holding Company.

(d) Offsetting

Financial assets and liabilities are offset and the net amount is reported on the statement of the financial position only when the Company has a legally enforceable right to set off the recognised amount and it intends either to settle 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 under IFRS or IAS or if gains or losses are arising from a group of similar transactions.

3 Significant accounting policies (continued)

(e) Foreign currencies

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

(f) Employee benefits

Short-term 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.

(g) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(h) Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(i) Related parties

A party is considered to be related to the Company if:

(a) the party, directly or indirectly through one or more intermediaries,

- (i) controls, is controlled by, or is under common control with, the Company;
- (ii) has an interest in the Company that gives it significant influence over the Company; or
- (iii) has joint control over the Company;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Company;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

3 Significant accounting policies (continued)

(j) Customer loyalty programme

The Company operates a rewards programme which allows customers to accumulate points when they trade with the Company. The points can then be redeemed and credited to customer trading account, subject to a minimum number of points being obtained.

The sale proceeds received are allocated between the customer trades and the points issued, with the proceeds allocated to the points being equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised in revenue when the points are redeemed.

(k) Trade and other debtors

All receivables are stated at amortised cost less impairment losses, if any.

(l) Payables

Payables are stated at amortised cost.

(m) Revenue recognition

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(n) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Company not opting for early adoption. These have, therefore, not been applied in preparing these financial statements.

The Company has assessed the impact of these standards. These standards have no material impact on the financial statements of the Company as at the reporting date.

4 Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investment securities

The fair value of financial assets at FVTPL and FVOCI is determined by reference to their quoted bid price at the reporting date. The fair value of investments in recognized financial markets is their quoted price.

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 discounted cash flow analysis or maintainable earnings models or other reliable valuation methods. Investments whose fair value cannot be reliably measured are carried at cost (being the most recent estimate of fair value) less any impairment losses.

5 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout in the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has authorised the quality assurance department to develop and monitor the Company's risk management policies. The Quality Assurance Manager reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

5 Financial risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The Company has in place group standards; regulations of Securities and Commodities Authority ("SCA"), Abu Dhabi Securities Exchange ("ADX") and the Dubai Financial Market ("DFM"), and policies and procedures dedicated to monitor and manage risk from such activities.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company's credit risk is mainly attributable to the trade margin facilities extended to the Company's customers. The exposure to credit risk on these facilities is monitored on an on-going basis by the management.

The Company has a policy in place under which each new customer is analysed individually for creditworthiness before the Company allows these customers to open a trading account with the Company. A trading limit is established for each customer, which represents the maximum open amount of margin facilities that is available to the customer for trading purposes. These individual limits are monitored and reviewed on an on-going basis.

The Company's cash is placed with its holding company and financial institutions of good repute.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2019 AED '000	2018 AED '000
Trade and other debtors	**147**	135
Bank balances	**120,840**	119,120
Other receivables	**3,953**	3,860
Total	**124,940**	123,115

The unsettled trade debtors of the Company as at the reporting date are derived from Gulf Cooperation Council countries ("GCC").

The maximum exposure to credit risk for trade and other debtors at the reporting date by type of customer was:

	2019 AED '000	2018 AED '000
Individuals	**147**	135

5 Financial risk management (continued)

Credit risk (continued)

Impairment losses

The details and movement in the allowance for impairment in respect of trade receivables during the year is referred to in note 9.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company is not significantly exposed to liquidity risks as its primary source of funding is through approved financing arrangements with the holding company, which itself is a reputable bank in the UAE.

Further, the Company comprises mainly other payables which are non-interest bearing with a maturity of less than six months. The contractual cash flows are not materially different from their carrying amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

All the company's transactions are conducted in AED or US Dollar ("USD"). The AED is currently pegged to the USD and while this continuous to be the case, the Company has no significant exposure to currency risk.

5 Financial risk management (continued)

Market risk (continued)

Interest rate risk

The Company has exposure to interest rate risk in relation to the amount due from holding company. The Company pays/receives interest to/from the holding company on intra-group net payables/receivables. All interest bearing financial assets and liabilities are at fixed interest rates.

At the reporting date, the interest profile of the Company's interest bearing financial instruments are as follows:

	2019 AED '000	2018 AED '000
Fixed rate instruments:		
Fixed deposits (Note 12)	**86,146**	83,864
Variable rate instruments:		
Call accounts	**17,819**	17,684

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have resulted in the following increases / (decreases) being recognised in the profit and loss account or directly in equity as shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit and Loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2019				
Financial instruments	**178**	**(178)**	**-**	**-**
31 December 2018				
Financial instruments	177	(177)	-	-

Equity price risk

Equity price risk arises from investment securities of the Company. Exposure to price risk is monitored by senior management on an ongoing basis to assess the impact of changes in market conditions. Investment securities are managed on a fair value basis.

The amounts mentioned in the table below reflect an equal but opposite potential effect on profit before tax and equity based on an assumed 5% strengthening or weakening in prices, with all other variables held constant:

5 Financial risk management (continued)

Market risk (continued)

Equity price risk (continued)

	31 December 2019			31 December 2018		
	Total AED '000	Effect on profit AED '000	Effect on equity AED '000	Total AED '000	Effect on profit AED '000	Effect on equity AED '000
Effect of change in equity price by 5%						
Equity Securities	**263**	**10**	**3**	263	10	3

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

To mitigate the operational risk, the Company has obtained fidelity and indemnity insurance cover against possible errors from its brokers while executing customers' orders for trade of securities in stock markets.

6 Capital management

The Company's capital management approach is driven by strategy and organizational requirements, taking into account the commercial environment in which it operates. The Company's capital management takes into account assets growth and the optimal amount and mix of capital required to support planned business growth.

Regulatory Capital

The Company is regulated by SCA, which sets and monitors the capital requirements for the Company. As per new SCA regulation No. 27 of 2014 concerning brokerage in securities, the minimum paid up capital for a brokerage company (Trading Member) must not be less than AED 3 million (2018: AED 3 million). The Company has complied with all externally imposed capital requirements throughout the period. There were no changes in the Company's approach to capital management during the year.

7 Property and equipment

Property and equipment of the company comprises of freehold improvements, leasehold improvements, office equipment, computer, right to use asset and capital work in progress.

8 Investment securities

These comprise the following:

	2019 AED '000	2018 AED '000
Equity securities:		
FVTPL	**198**	198
FVOCI	**65**	65
	263	263

Included in FVTPL equity securities is:

AED 198,000 (31 December 2018: AED 198,000) representing 1% equity interest in Egyptian Company for Electronic System Development ("Network International Egypt (NI-Egypt) (S.A.E)"). The remaining 99% equity interest in NI-Egypt is collectively owned by Network International LLC and Emirates NBD Capital (P.S.C), which is a subsidiary of the Holding Company.

9 Trade and other debtors

Trade Debtors include receivables from Margin Trading (MT), which the Company was previously engaged in. During 2011, SCA issued a circular that brokerage companies cannot carry out MT therefore, the company has not engaged in any further transactions.

For the period ended 31 December 2019, no accounts were transferred to Holding Company (full year 2018 no accounts were transferred). Receivable from MT as of 31 December 2019 was AED 7,507,000 (2018: AED 7,513,000).

	2019 AED '000	2018 AED '000
Customer receivables	**7,507**	7,513
Less: expected credit loss	**(7,360)**	(7,378)
	147	135

As at the reporting date customer receivables amounting to AED 7.507 million were individually impaired.

9 Trade and other debtors (continued)

	2019 AED '000	2018 AED '000
Movement in allowance for impairment loss		
Balance as on 1st January	**7,378**	7,378
Recoveries / Write back	**(18)**	-
	7,360	7,378

10 Other receivables

	2019 AED '000	2018 AED '000
Prepayments	**-**	60
Others	**3,953**	3,800
	3,953	3,860

The Company placed an amount of AED 1,897,000 with DGCX as cash collateral money on 26 August 2013.

11 Related party transactions

The Company, in the normal course of business, carries out transactions with entities that fall within the definition of a related party contained in International Accounting Standard 24. The transactions and balances with the related parties, other than those as disclosed elsewhere in the financial statements, are as follows:

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2019 AED '000	2018 AED '000
Short term employee benefits	**1,556**	2,046
Post employment benefits	**75**	94

11 Related party transactions (continued)

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

	2019 AED '000	2018 AED '000
Due to holding company	**16,995**	7,646
Bank balances held with holding Company (Note 12)	**120,840**	119,081

ECL on these balances are not significant.

A number of functions are centralized and the costs of these are borne by the holding company and not recharged to the company.

The transactions and balances with holding company and related parties, other than as disclosed elsewhere in the financial statements, are as follows:

	2019 AED '000	2018 AED '000
Commission income from related parties (refer note 11.1)	**132**	138
Interest income from holding company on fixed deposits and call account	**2,575**	2,174
Insurance premium paid to associate of holding company	**177**	104

11.1 Commission income from related parties in 2019 comprised:

	Trade value AED '000	Comm. income AED'000
Subsidiary of the holding company	**50,618**	**31**
Holding company	**64,652**	**81**
Associate of the holding company	**5,611**	**6**
Directors of the company	**10,823**	**14**
	131,704	**132**

12 Cash and bank balances

	2019 AED '000	2018 AED '000
Cash in hand	-	4
Current account	**29,912**	29,329
Bank deposit (Maturity within three months)	**60,451**	58,864
Cash and cash equivalents	**90,363**	88,197
Client money (Refer note 12.1)	**4,782**	5,927
Short term security deposit (Maturity after three months)	**25,695**	25,000
	120,840	119,124

12.1 In accordance with the regulations issued by the Securities and Commodities Authority ("SCA") the Company maintains separate bank accounts for advances received from its customers ("clients' money"). The clients' money is not available to the Company other than to settle transactions executed on behalf of the customers maintaining deposits with the Company.

13 Other payables

Other payables include customer loyalty program implemented in 2013. The program was designed to pay incentive "Points" to eligible customers based on customers trading volume per month. The total points are accrued each month and will be valid for redemption within 24 months. Points are credited to customer's trading account upon request. Each point has an equivalent value of AED 1. The total loyalty points accrued, net of redemption as at 31 December 2019 is AED 195,000 (2018: 481,000).

Other payables include operational loss provision of AED 6,535,000 created towards an ongoing legal case. Other Payables also include lease liabilities amounting to AED 1.217 million recognized on application of IFRS 16.

14 Share capital and reserves

	2019 AED '000	2018 AED '000
Authorised, issued and fully paid up:		
36,000 shares of AED 1,000 each	**36,000**	36,000

Capital contribution reserve

The capital contribution reserve represents the share capital of the acquired entity.

Statutory reserve

In accordance with Decretal Federal Law No. (14) of 2018, a minimum 10% of the net profit for the period is allocated to non-distributable statutory reserve. No appropriations were made during the year.

15 Administrative and general expenses

	2019 AED '000	2018 AED '000
Staff costs	**7,123**	7,532
Occupancy costs	**263**	668
Depreciation	**519**	90
Others	**6,411**	6,061
Total	**14,316**	14,351

The number of employees at 31 December 2019 were 17 (2018: 25).

The social contributions (including donations and charity) made during the year amount to AED Nil (2018: AED Nil).

16 Other expenses, net

	2019 AED '000	2018 AED '000
Clearing fee expense	**(915)**	(978)
Foreign exchange income	**314**	25
Other operating income / (expense)	**6**	(254)
	(595)	(1,207)

17 Contingent liabilities

	2019 AED '000	2018 AED '000
Letters of guarantee (Issued by the holding company in favor of DGCX)	**3,673**	3,673
Letters of guarantee (Issued by the holding company in favor of SCA)	**1,000**	1,000

19 Fair value measurement principles

Fair values

Fair values versus carrying amounts

The fair values of the financial instruments are not materially different from their carrying amounts.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In AED 000	**Level 3**
31 December 2019	
Equity securities:	
FVTPL	**198**
FVOCI	**65**
	263
31 December 2018	
Equity securities:	
FVTPL	198
FVOCI	65
	263

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Company employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgemental.