Company Registration No. 08040031 (England and Wales)

# BCS PRIME BROKERAGE LIMITED

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2019

# BCS PRIME BROKERAGE LIMITED

## CONTENTS

# BCS PRIME BROKERAGE LIMITED

## COMPANY INFORMATION

**Directors**

Roman Lokhov
Timothy Bevan
Edward Golosov
Alexander Romer-Lee
Wendy Langridge
Gordon McCulloch (appointed 8 March 2019)
Bradley Duke (resigned 24 April 2019)
Nikita Ponomarev (appointed 24 June 2019)

**Registered office**

99 Bishopsgate
London
EC2M 3XD

**Bankers**

National Westminster Bank, plc.
1 Princes Street
London
EC2R 8BP

JPMorgan Chase Bank
HB01-0320,
Bournemouth
BH7 7DA

JPMorgan Securities
6th Floor, 25 Bank Street
London, E14 5JP

BCS Cyprus
Spyrou Kypianou & 1 Oktovriou, 1
VASHIOTIS KLANDE OFFICES
1st floor, Mesa Geitonia, 4004 Limassol
Cyprus

BCS LLC
Prospekt Mira, 69
bld. 1 Moscow
Russia

BCS Bank
630099 Novosibirsk
37 Sovetskaya Street

ABN Bank
P.A.C HQ0090
Gustav Mahlerlaan 10
1082 PP Amsterdam, Netherlands

Deutsche Bank AG
10 Bishops Square
London, E1 6EG

NSD
12, Spartakovskaya St.
105066 Moscow
Russia

Euroclear
1 Boulevard du Rol Albert II
B-1210 Brussels Belgium

Nomura
1 Angel Lane
London, EC4R 3AB

ING
36, Krasnoproletarskaya
Street, 127473 Moscow
Russia

**Independent Auditor**

KPMG LLP
15 Canada Square
London
United Kingdom
E14 5GL

# BCS PRIME BROKERAGE LIMITED

## STRATEGIC REPORT

## *FOR THE YEAR ENDED 31 DECEMBER 2019*

The directors present the Strategic Report and financial statements of BCS Prime Brokerage Limited (“the Company”) for the year ended 31 December 2019. The functional and reporting currency of the Company is United States Dollars ("USD").

### Principal activity and review of business

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") as a significant IFPRU firm under registration number 586463 to provide brokerage services and under registration number 805008 to provide payment services. BCS Prime Brokerage Limited is a full service broker offering high-touch and low-touch solutions to trade international assets both within the Russian Federation and on global markets. The Company's approach is based on a hybrid model of capital markets and technology specialists, supported by strong financing and research capabilities through the wider Group ("BCS Group"), headed by FG BCS Ltd (of which BCS Prime Brokerage Limited is a 100% subsidiary).

BCS Group started as a retail brokerage firm in 1995 in Russia and became a leading financial services group there with a trading share on the Moscow Exchange of over 25% in 2019. In 2012 the Group launched the BCS Global Markets and Investment Banking (“GMIB”) business to target Russian domestic and international institutional clients. GMIB has operations in Russia, Cyprus, US and UK and provides access to financial markets in Russia, Europe, the USA and UK. GMIB provides a wide range of financial services covering equity, fixed income, derivatives products and investment banking advisory services. BCS Prime Brokerage Limited is a core company of GMIB with a primary focus on international business.

In April 2019 the Company obtained principal trading permission from the FCA. As at 31 December 2019 the permission has not bet activated yet. The ability to take short-term trading positions using its balance sheet should allow the firm to provide better services for its high-touch clients. During the reporting year the Company continued to develop the synthetic prime brokerage business which currently covers the Russian market and international markets. The Company's target client base comprises professional investors and regulated global institutional clients. The Company has a branch in Moscow providing support functions and continues to invest in infrastructure, people and the trading platform both in London and in the branch. At the end of 2019 the Company opened a branch in Cyprus, which is expected to start business operations in 2020.

The majority of the Company’s assets are short-term dated. Repo transactions on average have a maturity of less than a week. Funding facilities to clients are revocable immediately or at most within two weeks. Normal trading settlement occurs within two-three business days. Trading commissions and interest from margin lending are realised in the Company’s financial results quickly. In 2019 the Company provided several loans to its customers under structured finance transactions. All structured loans have collateral and/or other forms of credit protection. Maturity of the new loans are under 12 months. The Company also receives a material portion of revenues through transfer pricing arrangements with other companies of the BCS Group.

The directors do not anticipate significant changes in the nature of the Company's principal activities going forward.

### Results for the year

In the opinion of the directors the results for the year ended 31 December 2019 and the state of the Company's affairs as at 31 December 2019 are satisfactory. The results are in line with directors' expectations.

Net profit after tax for the year totalled $5,610k (2018: $2,362k). The directors do not recommend the payment of a dividend (31 December 2018: $nil).

## Key performance indicators ("KPIs")

In line with the Company's operating objectives, the level of external brokerage and other revenues, the operating cost base, cash expenditure and the regulatory capital position are monitored on a regular basis.

The Company has the following KPIs:

| | 2019 | 2018 |
|---|---|---|
| Return on Equity | 6.90% | 3.75% |
| Cost Income | 77.15% | 88.88% |
| Regulatory capital (in thousands of USD) | 93,655 | 61,478 |

The Company's KPIs confirm improved performance of the firm and a more stable capital position.

## Principal risks and uncertainties

The market risk of the Company is limited and currently comprise mainly of foreign exchange ("FX") exposure resulting from normal business activities. The principal risks and uncertainties of the Company relate primarily to credit risk, market risk, liquidity risk, capital risk and reputational risk. The method of management of these risks is detailed in note 5 of the financial statements.

The Company has conducted analysis of the impact of Brexit, including the possibility of a hard Brexit, on the future prospects and performance of the Company. The analysis considered the following categories of potential impact: passporting, regulation, commercial aspects and freedom of movement. The Company's clients are predominantly from non-EU countries and the core products are from non-EU markets. The estimated financial impact of a hard Brexit is under 1% of the Company's equity. Management of the Company continues to closely monitor the situation.

In light of the ongoing Covid-19 situation, the Company, as a temporary measure, has sent most of its staff to work from home both in London and Moscow. This scenario has been tested as part of the Company's business continuity arrangements. The Company demonstrates ability to provide continuous service to its clients in this mode. The Company has put other measures in place to restrict Covid-19 impact on the firm's employees and clients. Management of the Company does not expect material immediate impact on the business as it continues to provide the full range of services to clients. The longer-term impact of Covid-19 on the economy and on the Company is yet to be defined. The Company continues to closely monitor the situation.

By order of the Board

..............................
Timothy Bevan
Director
27 March 2020

The directors present their report and audited financial statements for the Company for the year ended 31 December 2019.

As of 31 December 2019 the Company has two branches incorporated outside the UK – Moscow, Russia and Limassol, Cyprus.

## Directors

The directors, who served throughout the year and at the date of this report, were as follows:

Roman Lokhov
Timothy Bevan
Edward Golosov
Alexander Romer-Lee
Wendy Langridge
Gordon McCulloch (appointed 8 March 2019)
Nikita Ponomarev (appointed 24 June 2019)
Bradley Duke (resigned 24 April 2019)

## Going concern

The Company has been profitable over the last years and prepares a financial forecast for at least a period of 12 months from the signing date of these financial statements showing financial viability of the business, including in appropriate stress scenarios.

In February 2019, an additional investment of $30,000k has been made in the equity of the Company by its existing shareholding Company.

Based on the above, the directors believe that it remains appropriate to prepare the Company's financial statements on a going concern basis.

See note 2 for the directors' assessment of the appropriateness of preparing these financial statements on a going concern basis.

## Dividends

The directors do not recommend a payment of dividends for the year ending 31 December 2019 (2018: $nil).

## Capital position

The Company's regulatory capital was $93,655k as at 31 December 2019 following a capital injection of $30,000k (31 December 2018: $61,478k).

## Pillar 3 risk disclosure

In accordance with the rules of the Financial Conduct Authority, the Company has published information on its risk management objectives and policies and on its regulatory capital requirements and resources. This information is available on the Company's website www.bcsprime.com.

## Political and charitable contributions

The Company made charitable donations during the year for amount of $1.5k (31 December 2018: $1.4k).

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all reasonable steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Auditor

Pursuant to section 487 of the Companies Act 2006, KPMG LLP will cease to be the auditor for the company. On 26 February 2020, the entity resolved to appoint Mazars LLP ("Mazars") as auditor. Mazars will become the Company's statutory auditor for the year ending 31 December 2020.

By order of the Board

..............................
Timothy Bevan
27 March 2020

99 Bishopsgate
London
EC2M 3XD

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BCS PRIME BROKERAGE LIMITED

### Opinion

We have audited the financial statements of BCS Prime Brokerage Limited ("the Company") for the year ended 31 December 2019 which comprise the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M. McG

**Michael T. McGarry (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square,
London
E14 5GL

27 March 2020

# BCS PRIME BROKERAGE LIMITED

## STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2019

| (in thousands of US Dollars) | Notes | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 56,911 | 121,518 |
| Settlement balances | | 7,761 | 41,440 |
| Receivables under reverse repurchase agreements | 14 | 154,797 | 747,677 |
| Derivative assets | | 44 | 20 |
| *Investment securities* | *15* | *6,112* | 1 |
| Investment in subsidiary | 16 | 159 | - |
| Loans to customers | 17 | 170,844 | 25,336 |
| Current tax assets | | - | 240 |
| Property, equipment and intangible assets | 19 | 1,903 | 1,018 |
| Deferred tax assets | | 76 | 94 |
| Other assets | 18 | 7,187 | 17,761 |
| **Total assets** | | **405,794** | **955,105** |
| **Liabilities** | | | |
| Settlement balances | | 5,385 | 25,796 |
| Payables under repurchase agreements | 14 | 85,740 | 678,393 |
| Derivative liabilities | | 323 | 131 |
| Due to customers | 20 | 192,616 | 168,941 |
| Current tax liabilities | | 1,220 | - |
| Provisions | 21 | 198 | 586 |
| Deferred tax liabilities | | 3 | - |
| Other liabilities | 22 | 20,838 | 17,418 |
| **Total liabilities** | | **306,323** | **891,265** |
| **Equity** | | | |
| Share capital | 23 | 90,696 | 60,696 |
| Reserves | | 21 | - |
| Retained earnings | | 8,754 | 3,144 |
| **Total equity** | | **99,471** | **63,840** |
| **Total equity and liabilities** | | **405,794** | **955,105** |

The accompanying notes 1 to 26 form an integral part of these financial statements.
These financial statements were approved and authorised for issue by the Board of directors and were signed on its behalf by:

Timothy Bevan
Director
27 March 2020
Company Registration No. 08040031

# BCS PRIME BROKERAGE LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

### *FOR THE YEAR ENDED 31 DECEMBER 2019*

| (in thousands of US Dollars) | Notes | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Fee and commission income | 7 | 58,725 | 62,789 |
| Fee and commission expense | 7 | (36,889) | (34,170) |
| **Net fee and commission income** | 7 | **21,836** | **28,619** |
| Interest income using the effective interest rate method | 8 | 98,327 | 31,939 |
| Other interest expense | 8 | (43) | (2,477) |
| Interest expense | 8 | (78,830) | (22,136) |
| **Net interest income** | 8 | **19,454** | **7,326** |
| Net trading income | | (21) | 49 |
| Impairment losses on financial instruments | | (665) | (940) |
| Net gain on sale of debt securities measured at FVOCI | 9 | 1,044 | - |
| Net income from other financial instruments at FVTPL | 10 | (1,829) | - |
| Net gain (loss) from foreign exchange | | 341 | (379) |
| **Other operating income and costs** | | **(1,130)** | **(1,270)** |
| **Net operating income** | | **40,160** | **34,675** |
| Impairment losses on other assets | 11 | (1,634) | - |
| Administrative and other operating expenses | 12 | (31,494) | (31,655) |
| **Profit before tax** | | **7,032** | **3,020** |
| Income tax expense | 13 | (1,422) | (658) |
| **Profit for the period** | | **5,610** | **2,362** |
| **Other comprehensive income (loss)** | | | |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| Movement in far value reserve (FVOCI debt instruments): | | | |
| Debt investments at FVOCI – net change in fair value | | 25 | - |
| Income tax relating to items that are or may be reclassified to profit or loss: | | (4) | - |
| **Total items that are or may be reclassified subsequently to profit or loss** | | **21** | **-** |
| **Other comprehensive income (loss) for the period** | | **21** | **-** |
| **Total comprehensive income** | | **5,631** | **2,362** |

The accompanying notes 1 to 26 form an integral part of these financial statements.
The profit for the year is derived from continuing activities and is attributable to the equity shareholder of the Company. There are no minority interests.

# BCS PRIME BROKERAGE LIMITED

## STATEMENT OF CHANGES IN EQUITY

## *FOR THE YEAR ENDED 31 DECEMBER 2019*

| (in thousands of US Dollars) | **Share capital** | **Fair value reserve** | **Retained earnings** | **Total equity** |
|---|---|---|---|---|
| **Balance at 31 December 2017** | **60,696** | **-** | **1,433** | **62,129** |
| Adjustment on initial application of IFRS 9 | - | - | (651) | **(651)** |
| **Restated balance at 01 January 2018** | **60,696** | **-** | **782** | **61,478** |
| Profit for the period | - | - | 2,362 | **2,362** |
| **Balance at 31 December 2018** | **60,696** | **-** | **3,144** | **63,840** |
| **Total comprehensive income** | | | | |
| Profit for the period | - | - | 5,610 | **5,610** |
| **Other comprehensive income** | | | | |
| Debt investments at FVOCI – net change in fair value | - | 25 | - | **25** |
| Tax on other comprehensive income | - | (4) | - | **(4)** |
| **Total comprehensive income** | **-** | **21** | **5,610** | **5,631** |
| **Contributions and distributions** | | | | |
| New shares issued | 30,000 | - | - | **30,000** |
| **Total contributions and distributions** | **30,000** | **-** | **-** | **30,000** |
| **Balance at 31 December 2019** | **90,696** | **21** | **8,754** | **99,471** |

The accompanying notes 1 to 26 form an integral part of these financial statements.

# BCS PRIME BROKERAGE LIMITED

## STATEMENT OF CASH FLOWS

### *FOR THE YEAR ENDED 31 DECEMBER 2019*

| (in thousands of US Dollars) | Notes | 31 December 2019 | 31 December 2018 (restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before income tax** | | **7,032** | **3,020** |
| Adjustments for: | | | |
| Depreciation and amortisation | 19 | 711 | 357 |
| Net impairment losses | 5,11 | 2,299 | 940 |
| Net interest income | | (19,454) | (7,326) |
| Unrealised gains on loans designated at FVTPL | | (308) | - |
| Revaluation of derivatives | | 257 | - |
| Net gain on sale of investment securities measured at FVOCI | | (1,044) | - |
| | | **(10,507)** | **(3,009)** |
| **Changes in:** | | | |
| Derivative assets | | (24) | (7) |
| Receivables under resale agreements | | 592,699 | (243,908) |
| Loans to customers | | (147,010) | (5,935) |
| Other assets | | 45,888 | (32,451) |
| Derivative liabilities | | 194 | 132 |
| Payables under repurchase agreements | | (591,994) | 160,422 |
| Customer accounts | | 23,675 | 41,397 |
| Other liabilities and provisions | | (13,596) | 12,831 |
| | | **(90,168)** | **(67,519)** |
| Interest received | | 98,134 | 31,107 |
| Interest paid | | (85,441) | (19,262) |
| Income tax paid | | (313) | (923) |
| **Net cash used in operating activities** | | **(88,295)** | **(59,606)** |
| **Cash flows from investing activities** | | | |
| Acquisition of investment securities | | (707,508) | (1) |
| Proceeds from sale of investment securities | | 702,667 | - |
| Acquisition of a subsidiary | | (360) | - |
| Acquisition of property, equipment and intangible assets | | (257) | (1,038) |
| **Net cash used in investing activities** | | **(5,458)** | **(1,039)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | 30,000 | - |
| Payment of lease liabilities | | (177) | - |
| **Net cash used in financing activities** | | **29,823** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | | (63,930) | (60,645) |
| Cash and cash equivalents at 1 January | | 121,518 | 170,384 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (641) | 11,784 |
| Effect of changes in allowance for credit losses on cash and cash equivalents | | (36) | (5) |
| **Cash and cash equivalents at 31 December (including cash held as collateral)** | | **56,911** | **121,518** |

The accompanying notes 1 to 26 form an integral part of these financial statements.

## 1. General information

BCS Prime Brokerage Limited (the "Company") is a limited company, incorporated and domiciled in England and Wales. The registered office is 17th Floor 99, Bishopsgate, London, EC2M 3XD.

The financial statements comprise a Statement of Financial Position, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows and related notes.

The financial statements are presented in US Dollars as this is the functional currency of the Company. The assets and liabilities are mostly denominated in US Dollars at 31 December 2019.

## 2. Going concern

The Company is a wholly owned subsidiary of FG BCS Ltd ("the Parent Company"), a company incorporated in Cyprus.

For the year ended 31 December 2019, the Company made a profit after tax of $5,610k (2018: $2,362k) and had net assets of $99,471k (31 December 2018: $63,840k). The Company has a projection of its statement of financial position, statement of comprehensive income and statement of cash flows up until 31 December 2021. Different stress scenarios are taken into consideration in the Company's ICAAP analysis, including material underperformance of key business lines, and certain correction measures taken by the management.

In February 2019 the Company issued additional shares for $30,000k, which have been fully paid by its existing shareholding company. During 2019, USD treasury bills (high quality liquid assets) have been purchased as a new liquidity buffer of $5.9m as a replacement to the previously held cash reserve, following assignation of IFPRU status. The buffer is to be used only in severe stress liquidity conditions to help the company to meet its obligations. This reserve is revised at least annually within the firm's Internal Liquidity Adequacy Assessment ("ILAA") review.

The Company's main risks are credit, liquidity, market and operational risk as a result of its activities. For more information please refer to the Financial Risk Management Section.

The directors report that, having reviewed current performance and forecasts, including specific consideration of the potential risks associated with the Coronavirus, they have a reasonable expectation that the entity has adequate resources to continue its operations for the foreseeable future. For this reason, the Company continued to adopt the going concern basis in preparing the financial statements.

## 3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 3.1. Statement of compliance

The financial statements of the Company have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs could differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs were not to be endorsed by the EU.

### 3.2. Basis of presentation

The financial statements have been prepared on a historical cost basis, except that trading assets, investment securities, derivative assets and liabilities are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 5.

## 3. Summary of significant accounting policies (continued)

The financial statements have been prepared on a standalone basis as the Company has taken the exemption provided under IFRS 10 not to prepare consolidated accounts on the basis that its ultimate parent company prepares consolidated IFRS financial statements. The Company's immediate parent is FG BCS Ltd, a company registered in Cyprus. Copies of the consolidated financial statements for FG BCS Ltd are available at www.bcsgm.com.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

Any changes to assumptions may have a significant impact on the financial statements for the period over which the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Company's financial statements, therefore, present the financial position and results fairly.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

## 3.3. Changes in accounting policies and presentation

### Adoption of new or revised standards and interpretations

The Company has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from January 2019 but they do not a material effect on the Company's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to "grandfather" the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

## 3. Summary of significant accounting policies (continued)

**IFRS 16 - as a lessee**

*Significant accounting policies and judgments*

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

In accordance with IFRS 16 variable payments, which do not depend on index or rate, i.e. do not reflect changes in market rental rates, should not be included in calculation of lease liability.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee, based on the period for which the contract is enforceable. The Company considers that enforceability of the lease is established not only by the written contract (including penalty clauses) in combination with applicable legislation related to renewal or termination rights, but also by economic disincentives for the lessee and/or the lessor that might create a 'penalty' in a broader meaning. This might result in the lease enforceability period going beyond the boundaries of the written contract because of inclusion of additional period, which lasts until the moment when the 'penalty' becomes insignificant for both parties. The Company interprets the definition of 'penalty' which apart of 'contractual penalty' also comprises replacement costs, significant leasehold improvements that caused economies loss in case of early termination of the contract.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

*Transition*

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to its office lease.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for short-term leases including Moscow Branch property lease agreement, under which the lease is cancellable within 60 days;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

## 3. Summary of significant accounting policies (continued)

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Company has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company presents lease liabilities in “Other liabilities” and right-of-use asset in “Property, equipment and intangible assets” in the statement of financial position.

**IFRS 16 - as a lessor**

The accounting policies applicable to the Company a lessor are not different from those under IAS 17.

**Impacts on financial statements**

On transition to IFRS 16, the Company recognised right-of-use assets within “Property, equipment and intangible assets” and lease liabilities within “Other liabilities”. The Company measured the right-of-use assets at the amount equal to the lease liability (adjusted by the amount of any prepaid lease payments as at 1 January 2019 and other balance adjustments), so there is no adjustment to the retained earnings opening balance.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental GBP borrowing rate of 3.76% at 1 January 2019.

A reconciliation of the operating lease commitments to this liability is as follows:

| (in thousands of US Dollars) | |
|---|---|
| **Operating lease commitments as at 31 December 2018 as disclosed in the financial statements** | **1,705** |
| Recognition practical exemption for: | |
| -short-term lease | (144) |
| **Operating lease commitments as at 31 December 2018 as disclosed in the financial statements excluding those of which recognition exemption is applied** | **1,561** |
| Effect of discounting | (125) |
| **Discounted lease liabilities recognised as at 1 January 2019** | **1,436** |
| Amount of accrued expenses on agreements | (97) |
| **Right-of-use assets under IFRS 16** | **1,339** |

As a result of initially applying IFRS 16, in relation to the office lease that was previously classified as operating lease, the Company recognised $1,339k of right-of-use assets and $1,561k of lease liabilities as at 31 December 2019. Also in relation to this lease under IFRS 16, the Company has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Company recognised $303k of depreciation charges and $50k of interest costs from this lease.

### Changes in presentation

Where immaterial changes have been made in the presentation of current year numbers in the notes to the financial statements, comparative numbers have been presented on the same basis, for consistency across the reported periods.

## 3. Summary of significant accounting policies (continued)

### 3.4. Foreign currency translation

*Functional and presentation currency*

Items included in the financial statements of the Company are measured in US Dollars as this is the currency in which the principal activity of the Company is primarily denominated. The financial statements are presented in US Dollars.

*Transactions and balances*

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the relevant transactions.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at period-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

All foreign exchange gains and losses recognised in the statement of comprehensive income are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item. Amounts have been translated using the said exchange rate, including totals and sub-totals, and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

### 3.5. Interest

*Effective interest rate*

Interest income and expense are recognised in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

*Amortisation cost and gross carrying amount*

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

## 3. Summary of significant accounting policies (continued)

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

*Calculation of interest income and expense*

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

*Presentation*

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- interest on loans to customers measured at FVTPL is presented separately as "other interest income.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Company's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in the net income from other financial instruments at FVTPL.

### 3.6. Net trading income

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, and interest income on trading assets and realised gains less losses on investment securities, and foreign exchange differences.

### 3.7. Fees and commission

The Company generates commission income from executing trades for clients and principal transaction revenue from trading activity in securities. The Company recognises fees and commissions when relevant performance obligations are satisfied, according to the 5 step model:

1) identify the contract with the customer,
2) identify each of the performance obligations included in the contract,
3) determine the amount of consideration in the contract,
4) allocate the consideration to each of the identified performance obligations,
5) recognise revenue as each performance obligation was satisfied.

## 3. Summary of significant accounting policies (continued)

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income is recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

### 3.8. Income and expenses recognition

Other than described in notes 3.5, 3.6 and 3.7 income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided.

### 3.9. Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

*Policy applicable after 1 January 2019*

See note 3.3.

*Policy applicable before 1 January 2019*

Where the Company is a lessee in a lease, which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit and loss for the year (rental expense) on a straight-line basis over the period of the lease.

### 3.10. Financial assets and financial liabilities

*Recognition and initial measurement*

Financial assets and liabilities are recognised on the date on which the Company becomes a party to the contractual provision of the instrument. A financial asset and liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

*Classification*

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 of the following conditions and is not designated as at FVOCI:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

## 3. Summary of significant accounting policies (continued)

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit and loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals;
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. The election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit and loss and no impairment is recognised in profit or loss. Dividends are recognised in profit and loss unless they clearly represent a recovery of part of the cost of the investment, in which they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

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

The Company classifies its financial liabilities, other than loan commitments, as measured at amortised cost or FVTPL.

**Business model assessment**

The Company makes an assessment of the objective of a business model for each asset category. The information considered includes:

• the stated policies and objectives for the asset category and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
• how the performance of the assets is evaluated and reported to the management and how employees responsible for the relevant business activity are remunerated;

## 3. Summary of significant accounting policies (continued)

• 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;
• the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the 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 interest rates.

*Reclassification*

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

Financial liabilities are not reclassified subsequent to their initial recognition.

*Derecognition*

The Company derecognizes financial assets when the contractual rights relevant to the assets expire or the risks and rewards of the ownership of the assets are transferred from the Company to another counterparty.

The Company derecognises financial liabilities when such liabilities are discharged or cancelled.

*Offsetting*

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity has a legally enforceable right to offset the recognised amounts and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Unless these requirements are met financial assets and financial liabilities are not offset in the statement of financial position.

*Impairment of financial assets*

Impairment of financial assets under IFRS 9 is done according to expected credit loss methodology.

### 3. Summary of significant accounting policies (continued)

ECL should use discounted expected cash flows. The discount rate was the rate used at the original recognition of the financial asset. If the rate was not defined at original recognition (e.g., for cash or balances on demand) it was then defined by management based on the credit quality of the counterparty.

The Company applied three scenarios in its credit risk model. The modelling was unbiased and reflected negative, base and optimistic scenarios. The baseline scenario assumed that no material changes in the economic environment or credit quality of the exposure happen over the projected period. Negative and optimistic scenarios should both be plausible and assumed similar probability of occurrence. The resulting ECL was probability-weighted of ECL for each scenario.

ECL for each exposure was calculated by multiplying probability of default ("PD"), exposure at default ("ED") and loss given default ("LGD"). Each of the assumption was provided by Risk Management based on observable information and internal assessments. The main assumptions are reviewed quarterly.

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

- Probability of Default: The probability of default was an estimate of the likelihood of default over a given period;
- Loss Given Default: The loss given default was an estimate of the loss arising in the case where a default occurs at a given time;
- Exposure at Default: The exposure at default was an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

The Company estimates the expected portion of the credit commitment that was drawn down over the expected life of the commitment and calculated the present value of cash shortfalls between the contractual cash flows that were due to the Company if the holder of the commitment drawn down a portion thereof and the cash flows that the Company expects to receive in such case. The Company took into account the credit risk management actions that it would expect to take once the credit risk was increased and that served to mitigate losses.

The Company recognised a provision by category and on all of the following financial instruments:

- Repurchase agreements;
- Loans to customers measured at amortised cost;
- Short-term bank balances;
- Off balance sheet items; and
- Other assets including accrued revenue.

Details of stage 1, 2 and 3 exposures and quantitative disclosure of credit risk provision are provided in note 5.

*Title transfer collateral arrangements*

The Company enters into title transfer collateral arrangements ('TTCA') with its clients. Under these arrangements, the Company has the full right of use of the collateralised assets without giving further notice to the clients. The clients entering into these arrangements have an unsecured collateral claim against the Company for the re-transfer of the equivalent assets back to them. On this basis, where these collateralised assets are cash they are recognised as cash on the balance sheet and the corresponding claim is recognised in current liabilities. Collateralised assets under these arrangements, and the corresponding claims, are not recognised on the balance sheet. The Company is not exposed to any market risk arising from the client cash or asset positions held under TTCA.

Client assets held under TTCA as well as receivables and payables from repurchase agreements are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses.

## 3. Summary of significant accounting policies (continued)

### 3.11. Cash and cash equivalents

For the purpose of the statement of financial position, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less, including cash held under title transfer collateral agreement ('TTCA').

### 3.12. Loans to customers

'Loans to customers' caption in the statement of financial position includes:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- loans to customers mandatorily measured at FVTPL due to non-compliance with the SPPI-criterion; these are measured at fair value recognised immediately in profit and loss.

### 3.13. Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt securities measured at FVOCI; and
- equity investment securities mandatorily at FVTPL.

### 3.14. Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values for exchange traded derivatives are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques. Fair value for over the counter derivatives, which are not quoted in an active market, are determined by the Company's internal valuation models and techniques.

### 3.15. Collateralised securities transactions

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an obligation to return it, including accrued interest as a liability within repurchase agreements, reflecting the transaction's economic substance as a loan to the company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the company. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

## 3. Summary of significant accounting policies (continued)

### 3.16. Financial guarantees and loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Company recognises ECL for loan commitments, which is included within provisions on the balance sheet.

### 3.17. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Changes in the expected useful life are accounted for by changing the depreciation period or methodology, as appropriate, and treated as changes in accounting estimates.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | Term of lease but not more than 5 years |
| Right-of-use asset | Term of lease |
| Furniture and fixtures | 4 years |
| Computer and office equipment | 3 years |

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset is derecognised upon disposal or when no future economic benefits are expected to arise from the use of the asset. Any gain or loss on disposal of an item of property and equipment is recognised in profit and loss.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

### 3.18. Intangible assets

Intangible assets have definite useful lives and primarily include capitalised computer software. Acquired computer software licenses are capitalised based on the costs incurred to acquire and bring to use the specific software. Expenditures on internally developed software are recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Intangible assets are stated at capitalised cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditures on software assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives of software is three to five years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### 3. Summary of significant accounting policies (continued)

#### 3.19. Investments in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

#### 3.20. Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, 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 for which the estimates of future cash flows have not been adjusted. 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit.

#### 3.21. Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

#### 3.22. Corporate tax

The current income tax charge is calculated on the basis of the applicable tax law in the jurisdiction in which it is generated by the Company's activities (see note 18). It is recognised as an expense for the period except to the extent that such current tax is charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity. Where the Company has tax losses that can be relieved against a tax liability for a previous period, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against any existing current tax balance. Where tax losses can be relieved only by being carried forward and applied against taxable profits of future periods, a deductible temporary difference arises. Those losses, where considered appropriate to recognise, are carried forward and set off against deferred tax liabilities carried in the statement of financial position. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. The tax effects of carrying forward unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

## 3. Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 3.23. Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

The Company operates a defined contribution pension scheme under which the Company pays a fixed contribution. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and it is recognised as an expense in profit or loss. The Company pays no other retirement benefits to the employees.

The Company does not operate a defined benefit plan.

### 3.24. Fair value management

*Fair value hierarchy*

The Company measures fair values for financial instruments recorded at fair value on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

An active market for this purpose means market where transactions take place with sufficient volumes and frequency to act as a source of pricing information on an ongoing basis.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

## 3. Summary of significant accounting policies (continued)

The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities and simple over the counter derivatives like credit default swaps.

*a) Equity and debt securities*

The fair value of equity and debt securities is determined by reference to their quoted closing last price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

Cost may be an appropriate estimate of fair value for investment in unquoted equity instruments if insufficient more recent information is available to determine fair value, or if there is a wide range of possible fair value measurements and cost represent the best estimate of fair value within that range.

*b) Credit default swaps*

The fair value of credit default swaps is estimated based on quoted market prices or pricing models that take into accounts the current market and contractual prices of the underlying instruments, credit spreads and other factors.

*c) Loans and other receivables*

For certain loans fair value may be determined from the market prices on a recently occurring transaction adjusted for all changes in risks and information since that transaction date. When there are no recently market transactions then spread based or discounted cash flow models are used to determine fair value. Credit risk, loss given default and exposure at default parameters are determined using information from the loan or CDS markets, if available.

### 3.25. Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019. The Company plans to adopt these pronouncements when they become effective.

- IFRS 17 Insurance Contracts – effective for reporting periods beginning on or after 1 January 2021. This standard is not applicable to the Company.

- Amendments to References to Conceptual Framework in IFRS Standard – effective for reporting periods beginning on or after 1 January 2020. These amendments are not applicable to the Company.

- Amendments to IFRS3: Definition of a Business – effective date is yet to be confirmed. These amendments are not applicable to the Company.

- Amendments to IAS 1 and IAS 8: Definition of Material - effective for reporting periods beginning on or after 1 January 2020. These amendments are not expected to have a significant impact on the Company’s financial statements.

- Amendments to IFRS9, IAS 39 san IFRS 7: Interest Rate Benchmark Reform - effective date is yet to be confirmed. These amendments are not applicable to the Company.

## 4. Critical accounting estimates and judgements

The Company's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management’s judgement, which necessarily have to be made in the course of the preparation of the financial statements.

The Company determines estimates and assumptions that affect the reported amounts of assets and liabilities for the next financial period. All estimates and assumptions required in conformity with IFRSs are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. The application of accounting policies and management's judgments for certain items are especially critical for the Company's results and financial situation due to their materiality.

The significant judgements for the year were made in calculating expected credit loss and transfer pricing. The firm uses a transfer pricing policy, which serves to implement the arm's length principle when dealing with other companies of the BCS Group.

## 5. Financial risk management

The Company has exposure to credit, market, liquidity and operational risk as a result of its activities.

This note presents information about the Company’s objectives, policies and processes for measuring and managing risk.

### Risk Management Framework

The Board sets the risk appetite of the Company. It defines its risk appetite as representing the amount and types of risk it is prepared to accept in the course of achieving its business objectives. In order to measure, monitor and control activities against its risk appetite, the Board has established and is ultimately responsible for the risk management framework of the Company.

In 2019 the Company established a Board Risk Committee. The Board Risk Committee has been delegated responsibility for reviewing the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment (ILAA) Manuals and setting risk appetite by the Board. The Board Risk Committee then recommends adoption of the risk appetite and ICAAP and ILAA Manuals to the Board. The Board Risk Committee meets every two months and is chaired by an independent non-executive director.

Day to day implementation of the risk management framework, as it relates to financial risks, has been delegated to the UK Risk Committee. The Risk Committee meets on a regular basis (at least monthly) and focuses on all financial risks faced by the Company.

The oversight and management of operational risk has been delegated to the Control and Oversight Committee, which is responsible for the development and implementation of controls to address operational risk, including reviewing and monitoring the Company’s activities from a systems and controls point of view, and mandating actions to strengthen the control environment. This Committee meets monthly.

All risk types are identified as part of the Internal Capital Adequacy Assessment Process (ICAAP) and articulated in the Company’s risk appetite statement. To this end, the Company has established and implemented the following suite of core risk management policies, that are approved at least annually by the Board Risk Committee for recommendation to the Board:

## 5. Financial risk management (continued)

- Credit Risk Policy
- Market Risk Policy
- Operational Risk Policy
- Liquidity Risk Policy
- Cyber Crime Prevention Risk Policy

### Market risk

Although the Company has a proprietary trading licence, as at 31 December 2019 it did not hold any proprietary positions. Market risk arises solely from the Company's use of foreign currencies in providing brokerage services, and from its portfolio of high quality liquid assets resulting from its ILAA, which give rise to a minimal amount of interest rate risk.

The Company's foreign exchange risk arises primarily with respect to GB Pounds Sterling, Euro and Russian Rouble. The Company actively manages its foreign exchange exposures, with the objective of managing and controlling market risk exposures within the Company's risk appetite.

As at 31 December 2019 the Company is foreign exposure to EUR was a liability of $320k (31 December 2018: liability of $634k), foreign exposure to GB Pounds Sterling was a liability of $384k (31 December 2018: liability of $932k) and to Russian Rouble was a liability of $1,245k (31 December 2018: liability of $2,505k). The Company actively manages its foreign exchange exposures.

As at 31 December 2019, if US Dollars had weakened/strengthened against above-mentioned currencies by 1%, the profit (loss) impact to the Company due to foreign exchange would have been:

| (in thousands of US Dollars) | 1% | -1% |
|---|---|---|
| EUR | (3) | 3 |
| GBP | (4) | 4 |
| RUB | (12) | 12 |
| Total | **(19)** | **19** |

### Credit risk

Credit risk is the risk of suffering financial loss should the Company's clients or counterparties fail to fulfil their contractual obligations to the Company. Specifically, the Company incurs credit risk when placing cash or securities with custodians or brokers, conducting trades on an execution-only basis with other market participants, conducting collateralised repo trades, providing loans and providing margin leverage services to clients.

These activities are identified, controlled and monitored within the risk management framework. Counterparty credit assessments are performed prior to approving limits. Where the Company provides a credit limit to a client, which involves physically transferring assets to a third party, this must be pre-approved by the Risk Committee. Exposures are monitored and reported daily.

At the 31 December 2019 the Company had credit facilities available to clients totalling $7,000k which had been provided but not used (31 December 2018: $7,000k).

The following table analyses the financial instruments to which the impairment requirements of IFRS 9 are applied and the related provision for ECL as at 31 December 2019:

### 5. Financial risk management (continued)

| | Gross Carrying Amount | ECL Provision balance | | | | Net Carrying Amount | ECL Provision movements | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage1 | Stage 2 | Stage 3 | Total | | Stage1 | Stage 2 | Stage3 | Total |
| (in thousands of US Dollars) | | | | | | | | | | |
| Cash in bank and broker accounts | 56,952 | (41) | - | - | (41) | 56,911 | (36) | - | - | (36) |
| Reverse repurchase agreements | 155,037 | (240) | - | - | (240) | 154,797 | 666 | - | - | 666 |
| Loans to customers | 172,599 | (1,755) | - | - | (1,755) | 170,844 | (1,599) | - | - | (1,599) |
| Other assets | 15,050 | (102) | - | - | (102) | 14,948 | (36) | - | 1,622 | 1,586 |
| **Total financial assets at amortised cost on balance sheet** | **399,638** | **(2,138)** | **-** | **-** | **(2,138)** | **397,500** | **(1,005)** | **-** | **1,622** | **617** |
| **Off-balance sheet** | | | | | | | | | | |
| Loan commitments | 7,000 | (9) | | | (9) | | - | | - | - |
| Collateral on repurchase agreements | 139,320 | (81) | | | (81) | | 340 | | - | 340 |
| **Total amount off-balance sheet** | **146,320** | **(90)** | **-** | **-** | **(90)** | | **340** | **-** | **-** | **340** |
| **Total ECL provision:** | | **(2,228)** | **-** | **-** | **(2,228)** | | **(665)** | **-** | **1,622** | **957** |

Stage 3 provision was nil as at 31 December 2019 (31 December 2018: $1,622k). It related to a single credit event that happened in 2017. In 2019 the position was written down from the balance sheet with no impact on 2019 profit and loss. ECL movement result recognised in the statement of comprehensive income for the year ended 31 December 2019 was a loss of $665k (2018: $940k).

The following table analyses the financial instruments to which the impairment requirements of IFRS 9 are applied and the related provision for ECL as at 31 December 2018:

| | Gross Carrying Amount | ECL Provision balance | | | | Net Carrying Amount | ECL Provision movements | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage1 | Stage2 | Stage3 | Total | | Stage1 | Stage2 | Stage3 | Total |
| (in thousands of US Dollars) | | | | | | | | | | |
| Cash in bank and broker accounts | 121,523 | (5) | - | - | (5) | 121,518 | (5) | - | - | (5) |
| Reverse repurchase agreements | 748,583 | (906) | - | - | (906) | 747,677 | (614) | - | - | (614) |
| Loans to customers | 25,492 | (156) | - | - | (156) | 25,336 | (129) | - | - | (129) |
| Other assets | 60,889 | (66) | - | (1,622) | (1,688) | 59,201 | (1) | - | (842) | (843) |
| **Total financial assets at amortised cost on balance sheet** | **956,487** | **(1,133)** | **-** | **(1,622)** | **(2,755)** | **953,732** | **(749)** | **-** | **(842)** | **(1,591)** |
| **Off-balance sheet** | | | | | | | | | | |
| Loan commitments | 7,000 | (9) | - | - | (9) | | 2 | - | - | 2 |
| Off-balance sheet client positions (short) | - | - | - | - | - | | - | - | 814 | 814 |
| Collateral on repurchase agreements | 691,452 | (421) | - | - | (421) | | (165) | - | - | (165) |
| **Total amount off-balance sheet** | **698,452** | **(430)** | **-** | **-** | **(430)** | | **(163)** | **-** | **814** | **651** |
| **Total ECL provision:** | | **(1,563)** | **-** | **(1,622)** | **(3,185)** | | **(912)** | **-** | **(28)** | **(940)** |

Due to the fact that the Company did not have exposures over 12 months except one long term loan, there was no difference in calculating ECL for Stage 1 and Stage 2 at 31 December 2019. Most of the Company's exposure was for very short-term maturity: on demand or within one week, however it was continually rolled forward or not fully withdrawn from the counterparties. The Company applied a six months probability of default for Stage 1 and 2 for those financial assets with a remaining maturity of less than six months, and a twelve months PD – for those with a remaining maturity of more than six months.

The long-term subordinate loan provided in 2018 remains in Stage 1 as of 31 December 2019.

**5. Financial risk management (continued)**

The Company would move an exposure from Stage 1 into Stage 2 should there be a significant increase in credit risk since initial recognition. In defining the significant increase in credit risk the Company would assess lifetime PD of the exposure at initial recognition and lifetime PD of the exposure at the reporting date. The Company uses external and internal credit ratings to determine PD and assumes that there is a significant increase in risk if the exposure moved into credit rating CCC and below or if there is a two notch downgrade for non-investment grade exposures. Exposures, which stay within investment grade, are not considered to have a significant increase in risk.

**Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments or other cash flows.

As an IFPRU Firm, the Company conducts an ILAA on an annual basis, which is reviewed and approved by the Board Risk Committee for recommendation to the Board.

The Company manages liquidity by maintaining sufficient cash with banks and matching maturities of its receivables and payables to meet its on-going commitments. Any arrangements that have the potential to add an element of ‘term’ to the Company’s funding profile must be approved by the Board Risk Committee. As part of its ILAA, the Company has ring-fenced a prudent buffer of high quality liquid assets, in the form of US Treasuries, to mitigate against a worst case scenario. It estimates the buffer would allow the business to be wound down with minimal disruption. The ILAA is repeated on at least an annual basis. Liquidity stress testing is conducted daily, to show management the Company’s liquidity position in normal and stressed scenarios. Escalation thresholds have been set, and a contingency funding plan put in place.

Set out below is the table showing the contractual maturities of assets and liabilities as at 31 December 2019.

## 5. Financial risk management (continued)

| (in thousands of US Dollars) | Carrying amount | Gross nominal inflow/ (outflow) | Less than 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 56,911 | 56,952 | 56,952 | - | - | - | - |
| Reverse repurchase agreements | 154,797 | 155,037 | 155,037 | - | - | - | - |
| Derivative assets | 44 | 44 | 44 | - | - | - | - |
| Investment securities | 6,112 | 6,142 | - | - | 5,944 | 1 | 197 |
| Loans to customers | 170,844 | 177,255 | 21,613 | 1,895 | 148,465 | 5,282 | - |
| Other assets | 14,948 | 15,050 | 11,963 | 1,918 | 958 | 211 | - |
| **Total assets** | **403,656** | **410,480** | **245,609** | **3,813** | **155,367** | **5,494** | **197** |
| Customer accounts | (192,616) | (192,616) | (192,616) | - | - | - | - |
| Repurchase agreements | (85,740) | (85,740) | (85,740) | - | - | - | - |
| Derivative liabilities | (323) | (524) | (66) | - | (458) | - | - |
| Lease liabilities | (1,246) | (1,325) | - | (106) | (318) | (901) | - |
| Other liabilities | (26,197) | (26,116) | (14,464) | (8,029) | (3,623) | - | - |
| Loan commitments | (9) | (7,000) | (7,000) | - | - | - | - |
| **Total liabilities** | **(306,131)** | **(313,321)** | **(299,886)** | **(8,135)** | **(4,399)** | **(901)** | **-** |
| **Net liquidity surplus/(deficit)** | **97,525** | **97,159** | **(54,277)** | **(4,322)** | **150,968** | **4,593** | **197** |

Set out below is the table showing the contractual maturities of assets and liabilities as at 31 December 2018.

| (in thousands of US Dollars) | Carrying amount | Gross nominal inflow/ (outflow) | Less than 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 121,518 | 121,523 | 121,523 | - | - | - | - |
| Reverse repurchase agreements | 747,677 | 748,583 | 748,583 | - | - | - | - |
| Derivative assets | 20 | 20 | 20 | - | - | - | - |
| Investment securities | 1 | 1 | - | - | - | 1 | - |
| Loans to customers | 25,336 | 26,520 | 20,400 | 20 | 443 | 5,657 | - |
| Other assets | 59,441 | 59,507 | 58,131 | 672 | 438 | 266 | - |
| **Total assets** | **953,993** | **956,154** | **948,657** | **692** | **881** | **5,924** | **-** |
| Customer accounts | (168,941) | (168,941) | (168,941) | - | - | - | - |
| Repurchase agreements | (678,393) | (678,393) | (678,393) | - | - | - | - |
| Derivative liabilities | (131) | (131) | (131) | - | - | - | - |
| Other liabilities | (43,103) | (42,682) | (30,442) | (6,935) | (5,305) | - | - |
| Loan commitments | (9) | (7,000) | (7,000) | - | - | - | - |
| **Total liabilities** | **(890,577)** | **(897,147)** | **(884,907)** | **(6,935)** | **(5,305)** | **-** | **-** |
| **Net liquidity surplus/(deficit)** | **63,416** | **59,007** | **63,750** | **(6,243)** | **(4,424)** | **5,924** | **-** |

**5. Financial risk management (continued)**

The Company receives liquid securities from its clients as collateral on TTCA accounts and the Company receives securities under reverse repo transactions. These securities, which are placed with brokers and clearers, are not reflected on balance sheet but still act as a source of liquidity for the Company.

### Operational risk

The Company defines operational risk as the risk of a change in value caused by the fact that actual losses (or profits), incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses (or profits).

Operational risk is monitored and measured using a variety of techniques. These include annual operational risk and control self-assessments, new product reviews, a monthly key risk indicator (“KRI”) report, and operational risk issue and incident reporting and resolution.

The Company also has insurance arrangements in place to mitigate operational risk.

Reputational risk is a considered to be a sub-set of operational risk and is defined as the potential for damage to the Company's franchise, resulting in loss of earnings or adverse impact on the value of the Company as a result of a negative view of the Company or its actions being taken by third parties. Reputational risk could arise from the failure of the Company to effectively mitigate the risks in its business including one or more of credit, liquidity, market, regulatory, legal or any other operational risk. Damage to the reputation of the Company could cause existing clients to reduce or cease to do business with the Company and prospective clients not to undertake business with the Company. All employees are responsible for day-to-day identification and management of reputational risk. The Company actively manages its reputational risk exposures, discusses reputational risk as appropriate at its monthly Risk Committee and takes it into consideration in its ICAAP scenario analysis and calculations.

### Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits to other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to remain in compliance with the minimum regulatory capital requirements. The Company aims to maintain sufficient capital resources to support the Company's risk appetite and regulatory and economic capital requirements. Capital resources comprise issued share capital and reserves.

The Company formally reviews its ICAAP Manual on an annual basis, with a semi-annual review being performed to ensure the assumptions and numbers remain valid. This exercise is led by the Head of Risk Management and approved by the Board, following recommendation by the Board Risk Committee. Furthermore, capital adequacy is monitored every day based on current balances and exposures. Escalation thresholds have been established.

## 6. Fair values of financial instruments

The table below analyses financial instruments measured at fair value at 31 December 2019 and 31 December 2018, by the level in the fair value hierarchy into which the fair value is categorised. The amounts are based on the values recognised in the statement of financial position.

| | 31 December 2019 | | | | 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands of US Dollars) | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | | | | | |
| Derivative assets | - | 44 | - | 44 | - | 20 | - | 20 |
| Investment securities | 5,914 | 198 | - | 6,112 | - | 1 | - | 1 |
| Loans to customers at FVTPL | - | 50,323 | - | 50,323 | - | - | - | - |
| **Total financial assets at fair value** | **5,914** | **50,565** | **-** | **56,479** | **-** | **21** | **-** | **21** |
| **Financial liabilities at fair value** | | | | | | | | |
| Derivative liabilities | - | 323 | - | 323 | - | 131 | - | 131 |
| **Total financial liabilities** | **-** | **323** | **-** | **323** | **-** | **131** | **-** | **131** |

The tables below analyse financial instruments not measured at fair value at 31 December 2019 and 31 December 2018, by the level in the fair value hierarchy into which the fair value is categorised.

| | 31 December 2019 | | | | |
|---|---|---|---|---|---|
| (in thousands of US Dollars) | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | - | 56,911 | - | 56,911 | 56,911 |
| Reverse repurchase agreements | - | 154,797 | - | 154,797 | 154,797 |
| Loans to customers | - | 123,365 | - | 123,365 | 120,521 |
| Other assets | - | 14,948 | - | 14,948 | 14,948 |
| **Total financial assets at amortised cost** | **-** | **350,021** | **-** | **350,021** | **347,177** |
| **Financial liabilities** | | | | | |
| Client money held under TTCA | - | 192,616 | - | 192,616 | 192,616 |
| Repurchase agreement liabilities | - | 85,740 | - | 85,740 | 85,740 |
| Other liabilities | - | 27,443 | - | 27,443 | 27,443 |
| **Total financial liabilities at amortized cost** | **-** | **305,799** | **-** | **305,799** | **305,799** |

## 6 Fair values of financial instrument (continued)

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| (in thousands of US Dollars) | **Level 1** | **Level 2** | **Level 3** | **Total** | **Total carrying amount** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | - | 121,518 | - | 121,518 | 121,518 |
| Reverse repurchase agreements | - | 747,677 | - | 747,677 | 747,677 |
| Loans to customers | - | 25,337 | - | 25,337 | 25,337 |
| Other assets | - | 59,198 | - | 59,198 | 59,198 |
| **Total financial assets at amortised cost** | **-** | **953,730** | **-** | **953,730** | **953,730** |
| **Financial liabilities** | | | | | |
| Client money held under TTCA | - | 168,941 | - | 168,941 | 168,941 |
| Repurchase agreement liabilities | - | 678,393 | - | 678,393 | 678,393 |
| Other liabilities | - | 43,800 | - | 43,800 | 43,800 |
| **Total financial liabilities at amortized cost** | **-** | **891,134** | **-** | **891,134** | **891,134** |

## 7. Fee and commission income and expenses

| (in thousands of US Dollars) | **Year ended 31 December 2019** | **Year ended 31 December 2018** |
|---|---|---|
| **Fee and commission income** | | |
| Brokerage commissions | 14,904 | 16,274 |
| Reimbursed fees | 22,995 | 23,544 |
| Introductory fees | 11,250 | 15,119 |
| Outsourcing fees | 6,290 | 6,454 |
| Arrangements fees | 969 | - |
| Other commission income | 2,317 | 1,398 |
| **Total fee and commission income** | **58,725** | **62,789** |
| **Fee and commission expense** | | |
| Stock exchanges services | (18,096) | (19,479) |
| Other brokerage expenses | (14,509) | (12,251) |
| Loan facilitation fees | (682) | - |
| Other | (3,602) | (2,440) |
| **Total fee and commission expense** | **(36,889)** | **(34,170)** |
| | **21,836** | **28,619** |

## 8. Net interest income

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Interest income calculated using the effective interest method** | | |
| Resale and securities lending agreements | 86,603 | 22,739 |
| Interest received from clients | 6,314 | 9,053 |
| Terms loans | 4,850 | 112 |
| Current accounts with banks | 525 | 35 |
| Investment securities | 35 | - |
| **Total interest income calculated using the effective interest method** | **98,327** | **31,939** |
| **Other interest income/expense** | | |
| Financial assets measured at FVTPL | 1,101 | - |
| Derivatives | (1,144) | (2,477) |
| **Total other interest income/expense** | **(43)** | **(2,477)** |
| **Interest expense** | | |
| Repurchase and securities borrowing agreements | (73,558) | (17,830) |
| Current accounts, deposits and borrowings | (5,222) | (4,306) |
| Lease liability | (50) | - |
| **Total interest expense** | **(78,830)** | **(22,136)** |
| | **19,454** | **7,326** |

## 9. Net gain on sale of debt securities measured at FVOCI

In the first half of 2019 the Company temporarily invested its excess cash into USD Treasury bills, which were sold later during the year resulting in a net realised gain of $1,044k (31 December 2018: nil).

## 10. Net income from other financial instruments at FVTPL

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Net income from financial instruments mandatorily measured at FVTPL other than those included in 'net trading income'** | | |
| Funds | (1,672) | - |
| Derivatives held for risk management | (465) | - |
| **Net income from financial instruments designated as at FVTPL** | | |
| Loans and advances | 308 | - |
| | **(1,829)** | **-** |

## 11. Impairment losses on other assets

Impairment losses relate to an Australian subsidiary, which was purchased in 2019, including a loss of $471k on the cost of investment and $1,163k on related fixed assets and intellectual property (see note 16).

## 12. Administrative and other operating expenses

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Staff costs | (21,667) | (22,832) |
| IT expenses | (4,761) | (3,995) |
| Occupancy expenses | (1,218) | (1,282) |
| Professional Fees | (1,637) | (1,432) |
| Travel, representation and advertising expenses | (894) | (893) |
| Other administrative expenses | (1,317) | (1,221) |
| | **(31,494)** | **(31,655)** |

During the year the Company made contributions of $142k (31 December 2018: $154k) to a defined contribution pension scheme. Outstanding pension contributions at the year-end are disclosed in note 22.

Audit fees recognised in the statement of comprehensive income for the year ended 31 December 2019 were $208k (31 December 2018: $153k).

The average number of employees including the Moscow and Cyprus branches was 271 people during 2019 (2018: 248).

## 13. Income taxes

Income tax expense recorded in profit and loss for the year ended 31 December comprises the following:

| (in thousands of shares) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Current tax** | | |
| Current year income tax charge | (1,232) | (436) |
| Adjustments in respect of prior periods | (184) | (223) |
| Foreign tax relief | 68 | 110 |
| Foreign tax suffered | (136) | (116) |
| Foreign exchange differences | (33) | 12 |
| | **(1,517)** | **(653)** |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (219) | (211) |
| Effect of changes in tax rates | 23 | 22 |
| Adjustment in respect of prior periods | 291 | 184 |
| | **95** | **(5)** |
| **Income tax expense for the year** | **(1,422)** | **(658)** |
| **Other comprehensive income items** | | |
| Deferred tax expense | (4) | - |

## 13. Taxation (continued)

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 19.00% (31 December 2018: 19.00%). The differences are explained below:

| (in thousands of shares) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Current tax reconciliation** | | |
| Profit before corporation tax | 7,032 | 3,020 |
| Theoretical tax charge at statutory rate of 19.00% (31 December 2018: 19.00%) | (1,336) | (574) |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | (112) | (73) |
| Adjustment in respect of prior years | 107 | (39) |
| Tax rate changes | 23 | 22 |
| Effect of overseas tax rates | (71) | (6) |
| Foreign exchange differences | (33) | 12 |
| **Income tax expense for the year** | **(1,422)** | **(658)** |

### Factors affecting future tax charge

On 12 March 2020 it was announced that the UK corporation tax rate would increase from 17% (the previously enacted rate) to 19% from 1 April 2020. The deferred tax balances have been calculated with reference to the rate of 17%, as required under International Financial Reporting Standards. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of temporary differences will occur at this rate and that the maximum impact on the quantum of the deferred tax asset recognised will be $9k

## 14. Transfer of financial assets

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Reverse REPO** | | |
| Funding provided | 154,797 | 747,677 |
| Collateral received | 166,566 | 765,696 |
| **Direct REPO** | | |
| Funding received | 85,740 | 678,393 |
| Collateral provided | 139,320 | 691,452 |

Collateral received and provided are reported based on market prices of the securities at the end of 2019 and 2018 respectively.

### 15. Investment securities

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Debt investment securities measured at FVOCI** | | |
| Government bonds, rating - AAA | 5,914 | - |
| **Equity securities mandatorily measured at FVTPL** | | |
| Corporate shares | 198 | 1 |
| **Total investment securities** | **6,112** | **1** |

During 2019 USD treasury bills (high quality liquid assets) have been purchased as a new liquidity buffer of $5.9m as a replacement to the previously held cash reserve, following assignation of IFPRU status. The buffer is to be used only in severe stress liquidity conditions to help the company to meet its obligations.

### 16. Investment in subsidiary

On 8 February 2019 the Company purchased an Australian non-regulated entity, fixed assets and intellectual property. During the year the Company made a decision to liquidate the subsidiary. As at 31 December 2019 the investment was stated at its recoverable amount of $159k, net of the impairment charge of $201k (see note 11).

### 17. Loans to customers

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Loans to customers at amortised cost | 122,276 | 25,492 |
| Less impairment loss allowance | (1,755) | (156) |
| | **120,521** | **25,336** |
| Loans to customers at FVTPL | 50,323 | - |
| **Total loans to customers** | **170,844** | **25,336** |

In 2019 the Company provided three new loans to its customers under structured finance transactions. One of the loans was designated at FVTPL because the Company uses a credit derivative to manage the credit risk of the financial asset, while other two are measured at amortised cost.

In 2018 the Company provided a long-term subordinated loan to a regulated investment firm in the US. The loan is measured at amortised cost.

The loans measured at amortised cost use the effective interest rate method and are reduced by the ECL amount. There has been no evidence of significant deterioration of credit quality of the loans since their inception.

## 17. Loans to customers (continued)

### Loans to customers at amortised cost

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| (in thousands of US Dollars) | Gross carrying amount | ECL allowance | Carrying amount | Gross carrying amount | ECL allowance | Carrying amount |
| Term loans | 95,663 | (737) | 94,926 | - | - | - |
| Margin loans | 21,582 | (108) | 21,474 | 20,400 | (30) | 20,370 |
| Subordinated loan | 5,031 | (910) | 4,121 | 5,092 | (126) | 4,966 |
| | **122,276** | **(1,755)** | **120,521** | **25,492** | **(156)** | **25,336** |

## 18. Other assets

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Amounts due from related parties | 1,918 | 2,981 |
| Customer overdrafts | 2,869 | 8,694 |
| Prepayments | 958 | 905 |
| VAT receivable | - | 66 |
| Other | 1,476 | 5,176 |
| Loss allowance | (34) | (61) |
| **Total other assets** | **7,187** | **17,761** |

Other assets includes a rent deposit of $211k (31 December 2018: $205k).

See note 24 for details of amounts held with related parties.

## 19. Property, equipment and intangible assets

| (in thousands of US Dollars) | Computer and office equipment | Computer software | Furniture and fixtures | Leasehold improvements | Right-of-use asset | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 January 2018 | 1,188 | 203 | 47 | 260 | - | 1,698 |
| Additions | 345 | - | 147 | 546 | - | 1,038 |
| Balance at 31 December 2018 | 1,533 | 203 | 194 | 806 | - | 2,736 |
| Balance at 1 January 2019 | 1,533 | 203 | 194 | 806 | - | 2,736 |
| Recognition of right-of-use asset on initial application of IFRS 16 | - | - | - | - | 1,339 | 1,339 |
| Adjusted balance at 1 January 2019 | 1,533 | 203 | 194 | 806 | 1,339 | 4,075 |
| Additions | 213 | 43 | 1 | - | - | 257 |
| Disposals | (27) | (1) | - | - | - | (28) |
| Balance at 31 December 2019 | 1,719 | 245 | 195 | 806 | 1,339 | 4,304 |
| **Depreciation and amortisation** | | | | | | |
| Balance at 1 January 2018 | 872 | 183 | 46 | 260 | - | 1,361 |
| Charge for the year | 268 | 20 | 18 | 51 | - | 357 |
| Balance at 31 December 2018 | 1,140 | 203 | 64 | 311 | - | 1,718 |
| Charge for the year | 251 | 7 | 37 | 113 | 303 | 711 |
| Disposals | (27) | (1) | - | - | - | (28) |
| Balance at 31 December 2019 | 1,364 | 209 | 101 | 424 | 303 | 2,401 |
| **Carrying amounts** | | | | | | |
| Balance at 1 January 2018 | 316 | 20 | 1 | - | - | 337 |
| Balance at 31 December 2018 | 393 | - | 130 | 495 | - | 1,018 |
| Balance at 31 December 2019 | **355** | **36** | **94** | **382** | **1,036** | **1,903** |

## 20. Due to customers

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Client money held under TTCA | 142,616 | 168,941 |
| Independent amount received on CDS agreement | 50,000 | - |
| **Total due to customers** | **192,616** | **168,941** |

### 21. Provisions

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Provision for credit loss for off-balance sheet items | 90 | 430 |
| Other provisions | 108 | 156 |
| **Total provisions** | **198** | **586** |

### 22. Other liabilities

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Amounts due to related parties | 7,930 | 2,888 |
| Short-term employee benefits including taxes | 4,583 | 6,204 |
| Accrued expenses | 3,623 | 1,512 |
| Lease liability | 1,246 | - |
| VAT payable | 99 | - |
| Defined contribution pension liabilities | 24 | 43 |
| Other payables | 3,333 | 6,771 |
| **Total other liabilities** | **20,838** | **17,418** |

### 23. Share capital

| | Year ended 31 December 2019 (thousands of shares) | Year ended 31 December 2018 (thousands of shares) | Year ended 31 December 2019 (thousands of US Dollars) | Year ended 31 December 2018 (thousands of US Dollars) |
|---|---|---|---|---|
| In issue at 1 January | 56,165.3 | 56,165.3 | 60,696 | 60,696 |
| Issued and fully paid during the year | 30,000.0 | - | 30,000 | - |
| In issue at 31 December - fully paid | **86,165.3** | **56,165.3** | **90,696** | **60,696** |

### 24. Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other relates parties include the companies, which are controlled by beneficial owners and key management personnel and have a significant impact on the Company.

## 24. Related party transactions (continued)

### 24.1. Parent and ultimate controlling party

The Company is a 100% subsidiary undertaking of FG BCS Ltd, which is incorporated in Cyprus. The ultimate controlling party remains to be Oleg Mikhasenko.

At 31 December 2019 and 31 December 2018 and for the years then ended, the outstanding balances with the parent were nil. There were no transactions with the parent company during this time.

### 24.2. Directors' emoluments

| (in thousands of US Dollars) | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Emoluments | 1,213 | 1,918 |
| Pension and other benefits | 34 | 33 |
| **Total** | **1,247** | **1,951** |

Directors' emoluments and emoluments of the highest paid director are disclosed on an actual payment basis and include fixed compensation paid in the period and bonuses paid in the period. The aggregate emoluments paid to the highest paid director were $543k (31 December 2018: $903k), including variable remuneration. No loans were granted to the directors. Directors' emoluments and benefits were paid in GBP and are disclosed in USD using the average FX rate for the year.

### 24.3. Transactions with other related parties

At 31 December 2019 and 31 December 2018 and for the years then ended, the volumes of related party transactions, outstanding balances as of reporting date, and related income and expenses were as follows:

| | 2019 | | |
|---|---|---|---|
| (in thousands of US Dollars) | Gross carrying amount | ECL allowance | Carrying amount |
| **Statement of Financial Position** | | | |
| **Amounts due from related parties** | | | |
| Cash and cash equivalents | 7,787 | (28) | 7,759 |
| Receivables under reverse repurchase agreements | 45,547 | (100) | 45,447 |
| Derivative assets | 44 | - | 44 |
| Other assets | 4,077 | (8) | 4,069 |
| **Amounts due to relates parties** | | | |
| Payables under repurchase agreements | (53,523) | - | (53,523) |
| Derivative liabilities | (345) | - | (345) |
| Customer accounts | (94,746) | - | (94,746) |
| Other liabilities | (11,687) | - | (11,687) |

## 24. Related party transactions (continued)

| | 2018 | | |
|---|---|---|---|
| (in thousands of US Dollars) | **Gross carrying amount** | **ECL allowance** | **Carrying amount** |
| **Statement of Financial Position** | | | |
| **Amounts due from related parties** | | | |
| Cash and cash equivalents | 33,647 | (4) | 33,643 |
| Receivables under reverse repurchase agreements | 642,073 | (650) | 641,423 |
| Derivative assets | 20 | - | 20 |
| Other assets | 11,586 | (21) | 11,565 |
| **Amounts due to related parties** | | | |
| Payables under repurchase agreements | (321,867) | - | (321,867) |
| Derivative liabilities | (131) | - | (131) |
| Customer accounts | (61,769) | - | (61,769) |
| Other liabilities | (2,536) | - | (2,536) |

| (in thousands of US Dollars) | **Year ended 31 December 2019** | **Year ended 31 December 2018** |
|---|---|---|
| **Statement of Profit or Loss and Other Comprehensive Income** | | |
| Fee and commission income | 18,952 | 27,818 |
| Fee and commission expense | (23,105) | (1,200) |
| Interest income calculated using the effective interest method | 83,993 | 23,799 |
| Other interest income/(expense) | (1,258) | (2,476) |
| Interest expense | (7,916) | (6,824) |
| Impairment losses on financial assets | (545) | (441) |
| Net income from other financial instruments at FVTPL | (2,137) | - |
| Impairment losses on other assets | (1,634) | - |
| Administrative and other operating expenses | (151) | - |

All repurchase agreements with related parties are collateralised.

During 2019 the Company received a new guarantee of $15,000k from a related party (2018: nil).

## 25. Leases

Information about leases for which the Company is a lessee is presented below.

### 25.1. Right-of-use assets

Right-of-use assets relate to leased office premises that are presented within property and equipment (see note 19).

See note 5 for maturity analysis of lease liabilities as at 31 December 2019.

## 25. Leases (continued)

At 31 December 2018, the future minimum lease payments under non-cancellable operating lease were payable as follows:

| (in thousands of US Dollars) | **Year ended 31 December 2019** |
|---|---|
| Balance at 1 January | 1,339 |
| Depreciation charge during the year | (303) |
| Balance at 31 December | **1,036** |

The following amounts were included in the statement of comprehensive income:

| (in thousands of US Dollars) | **Year ended 31 December 2019** |
|---|---|
| **2019 – Leases under IFRS 16** | |
| Interest on lease liabilities | 50 |
| Expenses relating to short-term leases | 152 |

| (in thousands of US Dollars) | **Year ended 31 December 2018** |
|---|---|
| **2018 – Operating leases under IAS 17** | |
| Lease expenses | 140 |

## 26. Subsequent events

There were no further subsequent events requiring adjustments or disclosures in these financial statements.