

Company Registration No. 08040031 (England and Wales)

BCS PRIME BROKERAGE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

BCS PRIME BROKERAGE LIMITED

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BCS PRIME BROKERAGE LIMITED

COMPANY INFORMATION

Directors

Roman Lokhov
Timothy Bevan
Edward Golosov
Alexander Knyvett Romer-Lee
Bradley Wayne Duke

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Independent Auditor

KPMG LLP
15 Canada Square
London
United Kingdom
E14 5GL

BCS PRIME BROKERAGE LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present the strategic report and financial statements of BCS Prime Brokerage Limited ("Company") for the year ended 31 December 2017. 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 Limited Licence Firm under registration number 586463 to provide brokerage services. BCS Prime Brokerage Limited is a full service agency broker offering high-touch and low-touch solutions to trade Russian 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 in Russia with a trading share on the Moscow Exchange of over 25% in 2017. In 2012 the Group launched 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, EU, US and UK. Product-wise, it primarily specialises in prime brokerage and execution only services for cash equity instruments. In 2017, GMIB successfully launched investment banking advisory. BCS Prime Brokerage Limited is a core company of GMIB with a primary focus on international business. The Company's target client base comprises of 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.

The business operating cycle of the Company is short. Repo transactions on average have a maturity of less than a week. Funding facilities to clients are revocable within immediately or at most within two weeks. Normal trading settlement occurs within two-three business days. A short business cycle allows the firm to realize profits and losses quickly. The vast majority of the Company's revenues are commissions and interest received from its clients. 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 activity going forward. The Company is working on synthetic prime brokerage project which is planned to be launched in 2018. The Company also hired a fixed income senior specialist and plans to extend this business materially in 2018.

Results for the year

In the opinion of the directors the results for the year ended 31 December 2017 and the state of the Company's affairs as at 31 December 2017 are satisfactory. The results are in line with directors' expectations given the continued challenging market conditions in Russia and the overall investment program.

Net profit for the year totalled \$1,137k. Net profit has increased over the year (from \$209k in 2016). The directors do not recommend the payment of a dividend (31 December 2016: \$nil).

BCS PRIME BROKERAGE LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 expenditures and the regulatory capital position are monitored on a regular basis.

The Company has the following KPIs:

| | 2017 | 2016 |
|--------------------|-----------|-----------|
| | %, \$'000 | %, \$'000 |
| Return on Equity | 2.62% | 0.87% |
| Cost Income | 89.8% | 98% |
| Regulatory Capital | 60,972 | 40,720 |

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

Principal risks and uncertainties

The Company does not trade financial instruments on proprietary account. This reduces market risk to a limited foreign exchange ("FX") exposure resulting from normal business activities. The principal risks and uncertainties of the Company relate primarily to credit risk, FX 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 does not anticipate material changes in its strategy or operations as a result of Brexit. Once more clarity is obtained from the UK Government and EU Parliament, the Company will reassess the potential impact it may have on the Company's operations.

By order of the Board



.....
Tim Bevan
Director
27 March 2018

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and audited financial statements for the Company for the year ended 31 December 2017.

Directors

The directors, who served throughout the year, were as follows:

Roman Lokhov
Timothy Bevan
Edward Golosov
Alexander Romer-Lee
Bradley Duke

Going concern

These financial statements have been prepared on a going concern basis. The Company prepares a financial forecast for the period 12 months from the signing date of these financial statements. The Company also has a letter of support from its parent company. 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 to pay dividends for the year ending 31 December 2017. (2016: \$nil)

Capital position

In 2017 the Company materially increased its equity from \$23,992k at 31 December 2016 to \$62,129k at 31 December 2017. That was done mainly through conversion of the subordinated loan of \$17,000,000 into equity and issuance of additional share capital of \$20,000,000.

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 no charitable and political donations during the year (31 December 2016: nil).

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017


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 s418 of the Companies Act 2006.

Auditors

KPMG LLP is the appointed auditor pursuant to Section 487 of the Companies Act 2006.

By order of the Board



.....
Tim Bevan
27 March 2018

4th Floor Reading Bridge House
George Street
Reading
Berkshire
RG1 8LS

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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 (CONTINUED)

TO THE MEMBERS OF BCS PRIME BROKERAGE LIMITED

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 2017 which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows and related notes, including the accounting policies in note 1 to 20.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF BCS PRIME BROKERAGE LIMITED

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.¹

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.



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 2018

BCS PRIME BROKERAGE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

| | | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|--|----|-------------------------------|-------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 170,384 | 115,707 |
| Reverse Repurchase Agreements | 7 | 503,740 | 287,007 |
| Trade and other receivables | 8 | 46,934 | 38,956 |
| Currency Swaps | | 13 | - |
| Total current assets | | 721,071 | 441,670 |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 337 | 406 |
| | | 337 | 406 |
| Total Assets | | 721,408 | 442,076 |
| Liabilities | | | |
| Current liabilities | | | |
| Client cash held as collateral (liabilities) | | 127,544 | 100,416 |
| Trade and other payables | 10 | 14,277 | 34,445 |
| Repurchase Agreements | 7 | 517,458 | 265,959 |
| Currency Swaps | | - | 264 |
| Total current liabilities | | 659,279 | 401,084 |
| Non-current liabilities | | | |
| Subordinated Interest bearing loan | 11 | - | 17,000 |
| Total non-current liabilities | | - | 17,000 |
| Equity | | | |
| Share capital | 12 | 60,696 | 23,696 |
| Retained earnings | | 1,433 | 296 |
| Total equity | | 62,129 | 23,992 |
| Total equity and liabilities | | 721,408 | 442,076 |

The notes 1 to 20 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:


Tim Bevan
Director
27 March 2018
Company Registration No. 08040031

BCS PRIME BROKERAGE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

| | | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|---|-------|-------------------------------|-------------------------------|
| | Notes | | |
| Fee and Commission Income | | 54,631 | 30,497 |
| Fee and Commission Expense | | (30,911) | (20,859) |
| Net Fee and Commission Income | | 23,720 | 9,638 |
| Interest Income | | 28,347 | 10,983 |
| Interest Expense | | (24,638) | (5,428) |
| Net Interest Income | | 3,709 | 5,555 |
| Tax reclaim for previous periods | 14 | 1,901 | |
| Provision for Credit Loss | | (1,595) | |
| Fair Value Instruments Mark-to-Market | | 277 | 243 |
| Foreign Exchange differences | | (48) | (116) |
| Other Operating Income and Costs | | 535 | 127 |
| Net Operating Income | | 27,964 | 15,320 |
| Administrative expenses | 14 | (26,536) | (15,038) |
| Operating profit for the year | | 1,428 | 282 |
| Taxation | 15 | (291) | (73) |
| Profit and total comprehensive income for the year | | 1,137 | 209 |

The notes 1 to 20 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.

There are no components of other comprehensive income/expense in the year.

BCS PRIME BROKERAGE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | Share capital \$'000 | Retained earnings \$'000 | Total Equity \$'000 |
|--------------------------------------|-------|-------------------------|--------------------------------|------------------------|
| Balance at 1 January 2016 | | <u>23,696</u> | <u>87</u> | <u>23,783</u> |
| Profit for the year 31 December 2016 | | <u>-</u> | <u>209</u> | <u>209</u> |
| Balance at 31 December 2016 | | <u>23,696</u> | <u>296</u> | <u>23,992</u> |
| Profit for the year 31 December 2017 | | - | 1,137 | 1,137 |
| Issue of Share Capital | 12 | <u>37,000</u> | <u>-</u> | <u>37,000</u> |
| Balance at 31 December 2017 | | <u><u>60,696</u></u> | <u><u>1,433</u></u> | <u><u>62,129</u></u> |

The notes 1 to 20 form an integral part of these financial statements.

BCS PRIME BROKERAGE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

| | | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|--|-------|-------------------------------|-------------------------------|
| | Notes | | |
| Operating activities | | | |
| Cash generated from operations | 16 | 35,376 | (43,877) |
| Interest paid | | (172) | - |
| Income tax paid | | (319) | - |
| | | <u>34,885</u> | <u>(43,877)</u> |
| Net Cash inflow/(outflow) from operating activities (including cash held as collateral) | | | |
| | | <u>34,885</u> | <u>(43,877)</u> |
| Investing activities | | | |
| Purchase of property, plant and equipment | 9 | (208) | (253) |
| | | <u>(208)</u> | <u>(253)</u> |
| Net cash utilised in investing activities | | | |
| | | <u>(208)</u> | <u>(253)</u> |
| Financing activities | | | |
| Proceeds from the issue of new shares | 12 | 20,000 | - |
| | | <u>20,000</u> | <u>-</u> |
| Net cash generated from financing activities | | | |
| | | <u>20,000</u> | <u>-</u> |
| Net increase/(decrease) in cash and cash equivalents | | <u>54,677</u> | <u>(44,130)</u> |
| Cash and cash equivalents at 1 January | | <u>115,707</u> | <u>159,837</u> |
| Cash and cash equivalents at 31 December (including cash held as collateral)* | 10 | 170,384 | 115,707 |

*Cash held as collateral is \$127,544k at 31 December 2017 (31 December 2016: \$100,416k).

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. General Information

BCS Prime Brokerage Limited (the "Company") is a limited company, incorporated and domiciled in England and Wales. The registered office is 4th Floor Reading Bridge House, George Street, Reading, Berkshire, RG1 8LS.

The financial statements comprise of 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 2017.

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 2017, the Company made a profit after tax of \$1,137k (31 December 2016: \$209k) and has net assets of \$62,129k (31 December 2016: \$23,992k). The Company has a projection of its Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash Flow until 30 June 2019. This projection includes consideration of stress scenarios.

In addition, the Parent Company has provided the Company with a letter of support stating that it will continue to make available such funds as they are needed by the Company. The directors acknowledge that there can be no certainty that support will be available from the Parent Company although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. In March 2017, the Company's capital was increased by \$20,000k paid by the parent company, and the \$17,000k subordinated loan was also converted to capital. The Company has an unencumbered cash reserve of \$3,400k in a ring-fenced UK bank account to be used to wind down the operations of the Company in the event of a withdrawal of the support of the Parent Company. This reserve is revised at least annually within the firm's ICAAP review.

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

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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Summary of significant accounting policies (continued)

3.2 Basis of presentation

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments, financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVPL), all of which have been measured 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.

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 5.

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. Financial assets and financial liabilities have not been offset in the Statement of Financial Position.

Standards adopted during the year ended 31 December 2017

There were no new standards applied during the year ended 31 December 2017.

Future accounting developments

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is working on projects on insurance and lease accounting which could represent significant changes to accounting requirements in the future.

Standards and amendments issued by the IASB and endorsed by the EU but effective after 31 December 2017

The EU endorsed the amendments issued by the IASB to the standards IAS 7 (Disclosure Initiative) and IAS 12 (Recognition of Deferred Tax Assets for Unrealised Losses).

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Summary of significant accounting policies (continued)

Standards and amendments issued by the IASB but not endorsed by the EU

IFRS 16 – the IASB issued IFRS 16 'Leases' to replace IAS 17 'Leases'. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessor accounting requirements remain aligned to the current approach under IAS 17. This standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted.

The impact of the above mentioned changes is under assessment by the company management.

IFRS 9 'Financial Instruments' In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. This standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Classification and measurement

IFRS 9 will replace IAS 39 financial assets categories with the following ones:

- fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI); and
- amortised cost.

And by the following financial liabilities:

- financial liabilities at amortised cost;
- financial liabilities at fair value through profit or loss.

The new standard introduces a two step test for classification and measurement based on:

- the entity's business model for managing the assets; and
- the instruments' contractual cash flow characteristics .

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

The analysis of the Company's balance sheet and new classification rules resulted in the following:

- Cash, loans, trade and other receivables, repo assets meet the requirement mentioned above and will continue to be recognised and measured at amortised cost;
- Client cash held under TTCA, trade and other payables, loans and repo liabilities will continue to be recognized at amortised cost ;
- Overnight FX swaps will continue to be recognised at fair value through profit and loss.

There are no other financial assets or liabilities on the Company's balance sheet.

As such, management of the Company does not expect that changes in classification and measurement will have a material impact on the Company's financial position or Profit and Loss statement.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Summary of significant accounting policies (continued)

Impairment of Financial Instruments and Expected Credit Loss ("ECL")

The most critical change of IFRS 9 compared to IAS 39 is transition from an incurred loss approach to a forward-looking expected loss approach. The measurement of the expected credit loss should be based on:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The new approach means increased complexity of models to define credit risk provisions as well as more management judgment and estimates involved in the process. The ECL model uses the following main inputs:

- Exposure at default ("ED");
- Probability of default ("PD");
- Loss given default ("LGD").

The company will be using internal and external sources for the above-mentioned metrics.

The general approach taken by market participants is to split all credit exposures into stages where

- Stage 1 – Performing financial instrument. The Company recognises an allowance based on 12 month expected credit losses. This stage is applied to exposure from its initial recognition if there is no "significant increase in credit risk since initial recognition".
- Stage 2 – Underperforming financial instrument. The Company records an allowance for the lifetime expected credit loss. The exposure moves into this stage if "the credit risk on that financial instrument has increased significantly since initial recognition".
- Stage 3 – Impaired financial instrument: the Company recognises the lifetime expected credit losses and accrues interest income on the amortised cost of the financial instrument net of allowances.

Stage 3 reflects the incurred credit risk loss similar to current accounting rules under IAS 39.

According to the standard the ECL will be calculated only for financial assets at amortised cost. Cash held by the Company with banks, brokers and clearing members of the exchanges will be excluded from ECL calculation due to the short dated maturity (on demand) and high liquidity of the asset.

Under the new standard, the Company will have to create provisions for guarantees and undrawn credit facilities which was not required under IAS 39. When doing so, BCS UK will estimate the expected portion of the credit commitment that will be drawn down over the expected life of the commitment and calculate the present value of cash shortfalls between the contractual cash flows that are due to the Company if the holder of the commitment draws down a portion thereof and the cash flows that the Company expects to receive in such case. The Company will take into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

Due to the fact that the Company does not have exposures over 12 months, there will be no difference in calculating ECL for Stage 1 and Stage 2. Most of BCS UK exposure has very short-term maturity: on demand or within one week. However, the Company will be using 6 months probability of default for Stage 1 and 2 as most of exposure is continually rolled forward or not fully withdrawn from the counterparties.

The exposure will move in Stage 3 in case of occurred impairment. Under the new standard, the definition of default will stay unchanged. The exposure is in default when:

- it is unlikely that it will be repaid to the Company in full, without recourse by the Company to actions such as realizing collaterals (if any is held); or
- when the exposure is more than 90 days past due on any material credit obligation to the Company.

In assessing whether an exposure is in default, the Company will consider both qualitative and quantitative indicators. The definition of default is consistent with the definition that is used for regulatory purposes.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Summary of significant accounting policies (continued)

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

If the Company has exposure over 12 months, it will have to distinguish exposures between Stage 1 and Stage 2. For that reason, BCS UK will have to identify when significant increase in credit risk since initial recognition has happened. The Company will be using qualitative and quantitative assessments according to the application guidance to IFRS 9.

The Company will use at least three scenarios in its credit risk model. The modelling will be unbiased and will reflect negative, base and optimistic scenarios. The baseline scenario should assume 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 will assume similar probability of occurrence. The resulting ECL will be probability-weighted of ECL for each scenario.

ECL for each exposure will be calculated by multiplying PD, ED and LGD. Each of the assumption will be provided by Risk Management based on observable information and internal assessments. The approach will be consistently applied for all reporting periods according the relevant policy. The main assumptions will be reviewed quarterly.

Implementation of the standard will accelerate and increase the provisions for credit loss. It is also expected to increase volatility of the firm's financial results as expansion and contraction of BCS UK balance sheet would cause profit and loss movements in order to keep the required level of impairment provision. The changes in the accounting standard will not change the Company's policy regarding write-off of financial assets. The reduced profit will ultimately mean reduced equity and tier 1 capital according to CRD IV requirements. This will be partially offset by the reduced exposure in the credit risk calculation.

IFRS 9 should be applied retrospectively. BCS UK does not restate a previous period's financial statement as a result of IFRS 9 implementation. The opening retained earnings for 2018 will be adjusted for the difference between the credit provision done under IAS 39 and IFRS 9 for the credit exposures as of December 31, 2017. All further changes in the provision for ECL will be booked against the Company's profit and loss.

The above transitional adjustment is tax deductible, but spread over a 10 year period (starting in 2018), regardless of when the debt falls to be repaid. The Company will therefore recognise the associated Deferred Tax Asset at the appropriate rate of tax applicable to each period.

Based on ECL model applied for the balances as of December 31, 2017, the Company estimates that the implementation of IFRS 9 will not have material negative affect on Company's financial position.

Hedge Accounting

The Company did not use hedge accounting under IAS 39 so there will be no impact on the Company from changes in hedge accounting rules.

IFRS 15 'Revenue from Contracts with Customers', the standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. This standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Management of the Company does not expect material impact of IFRS 15 implementation on the Company's Financial Position and Profit and Loss.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3.3 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.

3.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. 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 amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.

Depreciation on property, plant 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 |
| Furniture and fixtures | 4 years |
| Computer software | 3 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's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.5 Impairment

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the 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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3 Summary of significant accounting policies (continued)

3.5 Impairment (continued)

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.

3.6 Revenue recognition

Third-party revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided, stated net of discounts and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity.

3.7 Expenses

Expenses incurred have been recognised on an accruals basis.

3.8 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 TTCA.

3.9 Financial Instruments

Financial assets at fair value through profit or loss

This category comprised financial assets classified as held for trading. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that were managed together and for which there was evidence of a recent actual pattern of short-term profit-taking or taken for the purpose of hedging existing firm's exposure.

Financial liabilities at fair value through profit or loss

This category comprised financial liabilities classified as held for trading. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that were managed together and for which there was evidence of a recent actual pattern of short-term profit-taking or taken for the purpose of hedging existing firm's exposure. The Company classifies currency overnight swaps into this category.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Summary of significant accounting policies (continued)

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.

3.10 Loans

Loans are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Where the Company extends commercial loans to third parties these are transferred to another party under a funded participation agreement. The associated financial asset is derecognised when the Company (a) transfers the contractual rights to receive the cash flows of the financial asset; or (b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

Where the Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients, the Company treats the transaction as a transfer of a financial asset if all of the following three conditions are met:

(a) The Company has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the Company with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition;

(b) The Company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows: and

(c) The Company has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

3.12 Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Summary of significant accounting policies (continued)

3.13 Corporate tax

Current and deferred income 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 15). 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.

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.

3.14 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. The leases entered into by the Company are operating leases. The total payments made under operating leases are charged to other operating expenses in the Statement of Comprehensive Income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place (see note 17).

3.15 Repurchase Agreements

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 consolidated 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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 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.

The Board has delegated the implementation of the risk management framework, as it relates to financial risks, to the Risk Committee. The Risk Committee meets on a monthly basis and focuses on all financial risks faced by the Company. Its primary function is to assist the Board of Directors in fulfilling its risk management responsibilities.

The oversight and management of Operational Risk has been delegated by the Board 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.

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 risk management policies, that are approved at least annually by the Risk Committee or the Control and Oversight Committee, as appropriate;

- Credit Risk Policy
- Market Risk Policy
- Operational Risk Policy
- Liquidity Risk Policy
- Risk Reporting Policy
- Stress Testing Policy

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Financial risk management (continued)

Market risk

Market risk arises solely from the Company's use of foreign currencies in providing brokerage services.

The Company's foreign exchange risk arises primarily with respect to GB Pounds Sterling 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 2017 the Company's foreign exposure to GB Pounds Sterling was a liability of \$682k (31 December 2016: Asset \$48k) and to Russian Rouble was a liability of \$1,037k (31 December 2016: Liability \$204k). The Company actively manages its foreign exchange exposures.

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 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 UK Risk Committee and site visits or calls must be conducted. Exposures are monitored and reported daily.

As at 31 December 2017, the Company's largest exposure to credit risk comprises the following assets: debtors of \$48,058 (31 December 2016: \$38,956k) mainly from a related entity (sister company) and cash and cash equivalents totalling \$170,384 (31 December 2016: \$115,707k). At the end of 2017 \$68,718 (31 December 2016: \$70,404k) of the cash and cash equivalents were held with related entities. See note 20 for further details.

At the 31 December 2017 the company had credit facilities available to clients totalling \$8,000,000k which had been provided but not used (31 December 2016: \$600k).

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.

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 Risk Committee. The Company has ring-fenced a prudent cash buffer to mitigate against a worst case scenario, which it estimates would allow the business to be wound down with minimal disruption. The liquidity adequacy assessment is repeated on at least an annual basis. Liquidity stress testing is conducted daily, to show Management the Company's liquidity position in a stressed scenario. Escalation thresholds have been set, and a contingency funding plan put in place.

Set out below are tables showing the contractual maturities of assets and liabilities as at 31 December 2017 and 31 December 2016.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Financial risk management (continued)

Contractual maturities of assets and liabilities as at 31 December 2017 and 31 December 2016:

| | < 1 m \$'000 | 1 m to 3 m \$'000 | 3 m to 6 m \$'000 | 6 m to 9 m \$'000 | 9 m to 12 m \$'000 | 1yr to 2 yrs \$'000 | 2yrs to 5yrs \$'000 | Over 5 yrs \$'000 | Total \$'000 |
|--|-----------------|-------------------------|-------------------------|-------------------------|--------------------------|---------------------------|---------------------------|-------------------------|-----------------|
| At 31 December 2017 | | | | | | | | | |
| Client cash held under TTCA | 127,544 | - | - | - | - | - | - | - | 127,544 |
| Cash and cash equivalents | 42,840 | - | - | - | - | - | - | - | 42,840 |
| Receivable from related entity | 5,359 | - | - | - | - | - | - | - | 5,359 |
| Repurchase agreements | 503,740* | - | - | - | - | - | - | - | 503,740 |
| Loan and other receivables | 41,575 | - | - | - | - | - | - | - | 41,575 |
| Swaps | 13 | - | - | - | - | - | - | - | 13 |
| Total assets | 721,071 | - | - | - | - | - | - | - | 721,071 |
| Trade and other payables | 5,128 | - | - | - | - | - | - | - | 5,128 |
| Accrued expenses | - | 7,741 | - | - | - | - | - | - | 7,741 |
| Client cash held under TTCA | 127,544 | - | - | - | - | - | - | - | 127,544 |
| Corporation Tax | - | - | - | 13 | - | - | - | - | 13 |
| Payable to related entity | 380 | - | - | - | - | - | - | - | 380 |
| Repurchase agreements | 517,458** | - | - | - | - | - | - | - | 517,458 |
| Total liabilities | 650,510 | 7,741 | - | 13 | - | - | - | - | 658,264 |
| Net liquidity surplus/(deficit) | 77,473 | (7,741) | - | (13) | - | - | - | (6,912) | 62,807 |

* - including \$261,254k of open dated reverse repo which is cancellable by the Company with notice of 5 days or less.

** - including \$268,166k of open dated repo which is cancellable with notice of 5 days or less.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Financial risk management (continued)

| | < 1 m \$'000 | 1 m to 3 m \$'000 | 3 m to 6 m \$'000 | 6 m to 9 m \$'000 | 9 m to 12 m \$'000 | 1yr to 2 yrs \$'000 | 2yrs to 5yrs \$'000 | Over 5 yrs \$'000 | Total \$'000 |
|---|-----------------|-------------------------|-------------------------|-------------------------|--------------------------|---------------------------|---------------------------|-------------------------|-----------------|
| At 31 December 2016 | | | | | | | | | |
| Client cash held under TTCA | 100,416 | - | - | - | - | - | - | - | 100,416 |
| Cash and cash equivalents | 15,291 | - | - | - | - | - | - | - | 15,291 |
| Receivable from related entity | 5,343 | - | - | - | - | - | - | - | 5,343 |
| Repurchase agreements | 287,007 | - | - | - | - | - | - | - | 287,007 |
| Loan and other receivables | 33,613 | - | - | - | - | - | - | - | 33,613 |
| Total assets | 441,670 | - | - | - | - | - | - | - | 441,670 |
| Trade creditors | 28,451 | - | - | - | 1,170 | - | - | - | 29,621 |
| Accrued expenses | - | 3,405 | - | - | - | - | - | - | 3,405 |
| Client cash held under TTCA | 100,416 | - | - | - | - | - | - | - | 100,416 |
| Corporation Tax Payable to related entity | 1,339 | - | - | - | 80 | - | - | - | 1,339 |
| Loan from parent company | - | - | - | - | - | - | - | 17,000 | 17,000 |
| Repurchase agreements | 265,959 | - | - | - | - | - | - | - | 265,959 |
| Swaps | 264 | - | - | - | - | - | - | - | 264 |
| Total liabilities | 396,429 | 3,405 | - | - | 1,250 | - | - | 17,000 | 418,084 |
| Net liquidity surplus/(deficit) | 45,241 | (3,405) | - | - | (1,250) | - | - | (17,000) | 23,586 |

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Financial risk management (continued)

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 an annual operational risk self assessment, new product reviews, a monthly 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 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 shareholders 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 conducts an annual ICAAP, which is led by the Head of Risk Management and approved by the Board. Furthermore, capital adequacy is monitored on a daily basis. Escalation thresholds have been established.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

6 Financial assets and liabilities

The following table details the categories of financial assets and liabilities held by the Company at 31 December 2017.

| | Notes | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|--|-------|---|---|
| Financial Assets | | | |
| Cash and cash equivalents | | 170,384 | 115,707 |
| Trade and other receivables | 7 | 46,934 | 38,956 |
| Reverse repurchase agreements | 7 | 503,740 | 287,007 |
| Total financial assets at amortised cost | | 721,058 | 441,670 |
| Financial assets at fair value | | | |
| Currency swaps | | 13 | - |
| Total financial assets | | 721,071 | 441,670 |
| Financial Liabilities | | | |
| Client cash held under TTCA | | 127,544 | 100,416 |
| Total trade and other payables | 10 | 14,277 | 34,445 |
| Interest bearing loan | 11 | - | 17,000 |
| Repurchase Agreement liabilities | 7 | 517,458 | 265,959 |
| Total Financial liabilities at amortized cost | | 659,279 | 417,820 |
| Financial liabilities at fair value | | | |
| Currency swaps | | - | 264 |
| Total financial liabilities | | 659,279 | 418,084 |

Loans and other current balances are reported at face value less an impairment provision of \$781k (2016: \$nil) which is a reasonable approximation of the fair value of these assets provided short-term nature of these balances (mostly on demand).

Trade and other payables include provision of \$814k for additional credit loss due to liquidation of client's position. This position in securities existed at December 31 2017 and was liquidated at loss in January 2018.

Both provisions of \$781k and \$814k related to one credit event happened during the year.

See note 19 for details of amounts held with related parties.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

7 Repurchase agreements ("REPO")

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|---------------------|---|---|
| Reverse REPO | | |
| Funding provided | 503,740 | 287,007 |
| Collateral received | 547,837 | 306,515 |
| Direct REPO | | |
| Funding received | 517,458 | 265,959 |
| Collateral provided | 595,953 | 271,301 |

Collateral received and provided are reported based on market prices of the securities at the end of 2017 and 2016 respectively.

8 Trade and other receivables

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|--|---|---|
| Amounts due from related entities | 5,359 | 5,343 |
| Prepayments | 446 | 364 |
| Loan receivables | 19,530 | 28,500 |
| Other receivables | 21,572 | 4,749 |
| Corporation tax receivable | 22 | - |
| VAT receivable | 5 | - |
| Total trade and other receivables | 46,934 | 38,956 |

Other receivables includes a rent deposit of \$155k (31 December 2016: \$141k) due within a year.

See note 19 for details of amounts held with related parties.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

9 Property, Plant and Equipment

| | Computer and office equipment \$'000 | Computer software \$'000 | Furniture and fixtures \$'000 | Leasehold improvements \$'000 | Total \$'000 |
|-------------------------------|---|--------------------------------|--|-------------------------------------|-----------------|
| Cost | | | | | |
| As at 1 January 2017 | 993 | 203 | 47 | 247 | 1,490 |
| Additions | 195 | - | - | 13 | 208 |
| As at 31 December 2017 | 1,188 | 203 | 47 | 260 | 1,698 |
| Depreciation | | | | | |
| As at 1 January 2017 | 655 | 140 | 42 | 247 | 1,084 |
| Charge for the year | 217 | 43 | 4 | 13 | 277 |
| As at 31 December 2017 | 872 | 183 | 46 | 260 | 1,361 |
| Net book value as at | | | | | |
| As at 31 December 2017 | 316 | 20 | 1 | - | 337 |
| As at 31 December 2016 | 338 | 63 | 5 | - | 406 |
| As at 31 December 2015 | 255 | 118 | 10 | - | 383 |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

10 Trade and other payables

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|---|---|---|
| Trade payables | 976 | 2,154 |
| Other payables | 3,482 | 27,311 |
| Amounts due to related parties | 581 | 1,339 |
| Corporation tax payable | - | 63 |
| Other tax and social security | 651 | 156 |
| Deferred tax liability | 13 | 17 |
| Accrued expenses | 7,741 | 3,405 |
| Defined contribution pension liabilities | 19 | - |
| Provision for credit loss | 813 | - |
| Trade and other payables | 14,277 | 34,445 |
| Client cash held under TTCA (liabilities) | 127,544 | 100,416 |
| Total trade and other payables | 141,619 | 134,861 |

Other payables relate to overdraft on the Company's broker account at BCS Cyprus. See note 19 for details of amounts held with related parties.

11 Non-current liabilities

| | Year ended 31 December 2017 \$ '000 | Year ended 31 December 2016 \$'000 |
|------------------------------------|--|---|
| Subordinated Interest bearing loan | - | 17,000 |
| | - | 17,000 |

The loan was converted into ordinary shares in March 2017. See note 12.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12 Share capital

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|---|---|---|
| Allotted, called up and fully paid | | |
| 56,165,300 Ordinary shares of \$1.00 each | 60,696 | - |
| 154,000 Ordinary shares of £100 each | - | 23,696 |
| | <u>60,696</u> | <u>23,696</u> |

The Company has redenominated its share capital from Great British pounds into US dollars (£100 per share into \$124.45 per share) and has made sub-division of shares (154,000 shares with nominal value of \$124.45 into 19,165,300 shares with nominal value of \$1) in March 2017. Due to the fact that this conversion had to be done at the market exchange rate at the time of the conversion, the nominal USD value of ordinary shares of \$19,165k is different from the Company's share capital of \$23,969k which stayed unchanged:

| | |
|--|-----------|
| Share capital calculated using redenomination date conversion rate | \$19,165k |
| Historical Translation effect | \$4,531k |
| Share Capital as per balance sheet (before redenomination) | \$23,696k |

On 15 March 2017, the Company has also issued additional shares for \$37,000k, \$20,000k of which has been paid by its existing shareholding company to the Company's bank account and \$17,000k has been paid up by the release of liability of the Company to repay of the subordinated loan of \$17,000k to its sole shareholder.

13 Directors' emoluments and Staff costs

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|-----------------------------|---|---|
| Directors emoluments | | |
| Emoluments | 1,445 | 1,041 |
| | <u>1,445</u> | <u>1,041</u> |

Directors emoluments and emoluments of the highest director disclosed on 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 \$799k (31 December 2016: \$835k), including variable remuneration.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

13 Directors' emoluments and Staff costs (continued)

| | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|--|-------------------------------|-------------------------------|
| Staff costs comprises | | |
| Wages and salaries (including directors) | 19,428 | 6,985 |
| Pension costs (including directors) | 74 | - |
| Total | <u>19,502</u> | <u>6,985</u> |
| Average number of employees (including directors) during the year | <u>187</u> | <u>26</u> |

During the year the Company made contributions of \$74k (31 December 2016: \$nil) to a defined contribution pension scheme. Outstanding pension contributions at the year-end are disclosed in note 10.

Number of staff and staff costs include Moscow Branch which started full operation in 2017.

14 Operating Profit for the year

The following items have been included in arriving at operating profit for the year:

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|---|---|---|
| Auditor's remuneration: | | |
| - fees payable to the auditor for the audit of the Company's financial statements | 162 | 136 |
| - CASS audit | 9 | 9 |
| Depreciation of property, plant and equipment | 277 | 230 |
| Operating lease rentals | 244 | 267 |
| Net foreign exchange losses | 48 | 116 |

Profit for 2017 contains tax reclaim of \$1,901k which relates to recovery of UK VAT relating to previous VAT periods repaid by UK tax authorities during the year.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15 Taxation

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|---|---|---|
| Corporation tax expenses | | |
| Current year income tax charge | 302 | 73 |
| Adjustments in respect of prior periods | (11) | (10) |
| Foreign tax relief | (78) | - |
| Foreign tax suffered | 78 | - |
| Foreign Exchange Differences | 4 | - |
| | <u>295</u> | <u>63</u> |
| Deferred tax | | |
| Origination and reversal of temporary differences | (9) | - |
| Effect of changes in tax rates | 1 | (1) |
| Adjustment in respect of prior periods | 4 | 11 |
| Total income tax expense | <u>291</u> | <u>73</u> |

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15 Taxation (continued)

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (31 December 2016: 20%). The differences are explained below:

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|---|---|---|
| Current tax reconciliation | | |
| Profit before corporation tax | 1,428 | 282 |
| Tax calculated at corporation tax rate in the UK at 19.25% (31 December 2016: 20.00%) | 275 | 56 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 18 | 17 |
| Adjustment in respect of prior years | (7) | 1 |
| Tax rate changes | 1 | (1) |
| Foreign exchange differences | 4 | - |
| Tax charge for the year | 291 | 73 |

Factors affecting future tax charge

The headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017 and, following the enactment of Finance Act 2016 on 15 September 2016 it will reduce further to 17% from 1 April 2020.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Given that the 17% rate was enacted at the time of the balance sheet date, the closing deferred tax balances have been calculated with reference to this rate.

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16 Cash generated from operations

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|--|---|---|
| Profit before tax income tax | 1,428 | 282 |
| Adjustments for: | | |
| Depreciation | 277 | 230 |
| Changes in financial instruments held at fair value | (277) | 243 |
| Net change in repurchase agreement liabilities | 251,499 | 148,094 |
| Net change in reverse repurchase agreement assets | (216,733) | (170,016) |
| Interest on loan | 172 | 864 |
| Movements in working capital: | | |
| Increase in trade and other receivables | (7,978) | (15,504) |
| Increase/(decrease) in trade and other payables (including client cash held as collateral) | 6,988 | (8,070) |
| Cash generated from/(absorbed by) operations | 35,376 | (43,877) |

17. Operating leases

At the end of the reporting year, the future minimum lease payments under non-cancellable operating leases are payable as follows:

| | Year ended 31 December 2017 \$'000 | Year ended 31 December 2016 \$'000 |
|------------------------------------|---|---|
| Fall due in not more than one year | 194 | 177 |
| In one to five years | - | - |
| | 194 | 177 |

18 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.

The largest and the smallest company in which the results of the Company are consolidated is FG BCS Ltd.

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19 Related party transactions

During the year the Company paid emoluments totalling \$1,445k to Directors of the Company (2016: \$1,041k). Total compensation paid to employees exerting significant influence over the Company for the year 2017 is \$4,295 (2016: \$3,548k). Director's emoluments and emoluments of employees exerting significant influence over the Company include fixed compensation paid in the period and bonuses paid in the period.

In addition to transactions with employees exerting significant influence over the Company, BCS Prime Brokerage Limited enters into transactions with Licence companies in Cyprus and Russia and other operating companies in the BCS Group. The following table shows the outstanding balance and the corresponding revenue and expenses during the year:

| | Revenue from related parties | Expenses to related parties | Balance receivable as at 31 December | Balance payable as at 31 December |
|------|------------------------------|-----------------------------|--------------------------------------|-----------------------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2017 | 44,601 | 5,539 | 404,589 | 314,152 |
| 2016 | 7,745 | 2,955 | 202,013 | 216,205 |

20 Subsequent events

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