

Company Registration No. 08040031 (England and Wales)

BCS PRIME BROKERAGE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

BCS PRIME BROKERAGE LIMITED

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BCS PRIME BROKERAGE LIMITED

COMPANY INFORMATION

Directors
Roman Lokhov
Timothy Bevan
Edward Golosov
Alexander Romer-Lee
Bradley Duke
Wendy Langridge (appointed 19 July 2018)
Gordon McCulloch (appointed 8 March 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 105066 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 Roi 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 2018

The directors present the Strategic Report and financial statements of BCS Prime Brokerage Limited ("Company") for the year ended 31 December 2018. 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 there with a trading share on the Moscow Exchange of over 25% in 2018. 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. GMIB entered in 2018 into a partnership agreement with Tigress Financial Partners, LLC – an institutional FINRA regulated broker-dealer. As part of this agreement, BCS Prime Brokerage Limited provided a subordinated loan to Tigress for an amount of \$5m during 2018. This partnership should strengthen the GMIB franchise in the USA and provide more opportunities for GMIB to participate in distribution of US capital market transactions.

In 2018 the Company launched the synthetic prime brokerage business which currently covers the Russian market and there are plans to extend it to 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.

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 immediately or at most within two weeks. Normal trading settlement occurs within two-three business days. A short business cycle allows the firm to realise 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 activities going forward. In October 2018 the Company applied to the FCA for principal trading permission. 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.

Results for the year

In the opinion of the directors the results for the year ended 31 December 2018 and the state of the Company's affairs as at 31 December 2018 are satisfactory. The results are in line with directors' expectations given the continued challenging market conditions in Russia and the overall investment programme.

Net profit after tax for the year totalled \$2,362k (2017: \$1,137k). The directors do not recommend the payment of a dividend (31 December 2017: \$nil).

BCS PRIME BROKERAGE LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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:

	2018	2017
Return on Equity	3.75%	2.62%
Cost Income	88.88%	89.8%
Regulatory Capital, \$'000	61,478	60,972

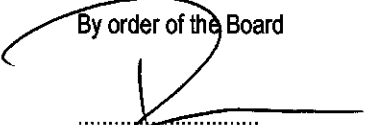
The Company's KPIs confirm improved performance of the firm and a more stable capital position.

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.

By order of the Board



.....
Timothy Bevan
Director
29 March 2019

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and audited financial statements for the Company for the year ended 31 December 2018.

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
Bradley Duke
Wendy Langridge (appointed 19 July 2018)
Gordon McCulloch (appointed 8 March 2019)

Going concern

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

In February 2019, additional investment of \$30,000k has been made in the equity of the Company by its existing shareholding Company. BCS Prime Brokerage Limited also has a letter of support from its parent 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 2018. (2017: \$nil).

Capital position

In 2018 the Company maintained a capital position of over \$60,000k. The equity of the firm has been subsequently further increased by \$30m in February 2019. See note 19 for more details.

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 \$1.4k (31 December 2017: \$nil).

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

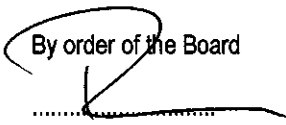
Disclosure of information to auditor

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.

Auditors

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

By order of the Board



.....
Timothy Bevan
29 March 2019

99 Bishopsgate
London
EC2M 3XD

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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, 2018 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.

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 December, 2018 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.

Other matters: The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors such as the recoverability of loans and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company’s future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company’s future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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, including the impact of Brexit, 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a Strategic Report.

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.

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

1 April 2019

BCS PRIME BROKERAGE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		31 December 2018 \$'000	31 December 2017 \$'000
Assets			
Current assets			
Cash and cash equivalents		121,518	170,384
Reverse Repurchase Agreements	7	747,678	503,740
Trade and other receivables	8	79,903	46,934
Currency Swaps		20	13
Total current assets		949,119	721,071
Non-current assets			
Property, plant and equipment	9	1,018	337
Investment in equities		1	-
Long term loan	10	4,966	-
Total non-current assets		5,985	337
Total Assets		955,104	721,408
Liabilities			
Current liabilities			
Client cash held as collateral (liabilities)		168,941	127,544
Trade and other payables	11	43,799	14,277
Repurchase Agreements	7	678,393	517,458
Currency Swaps		131	-
Total current liabilities		891,264	659,279
Equity			
Share capital	12	60,696	60,696
Retained earnings		3,144	1,433
Total equity		63,840	62,129
Total equity and liabilities		955,104	721,408

The notes 1 to 19 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

29 March 2019

Company Registration No. 08040031

BCS PRIME BROKERAGE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 \$'000	31 December 2017 \$'000
Net Trading Income		49	-
Net Trading Income		49	-
Fee and Commission Income		62,789	54,631
Fee and Commission Expense		(34,171)	(30,911)
Net Fee and Commission Income		28,618	23,720
Interest Income using Effective Interest Rate method		31,939	28,347
Other interest Income		2,208	-
Interest Expense		(26,820)	(24,638)
Net Interest Income		7,327	3,709
VAT reclaim for previous periods		-	1,901
Provision for Credit Loss		(940)	(1,595)
Fair Value Instruments Mark-to-Market		-	277
Foreign Exchange differences		(379)	(48)
Other Operating Income and Costs		(1,319)	535
Net Operating Income		34,675	27,964
Administrative expenses	14	(31,655)	(26,536)
Operating profit for the year		3,020	1,428
Taxation	15	(658)	(291)
Profit and total comprehensive income for the year		2,362	1,137

The notes 1 to 19 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 2018

	Notes	Share capital \$'000	Retained earnings \$'000	Total Equity \$'000
Balance at 1 January 2017		23,696	296	23,992
Profit for the year 31 December 2017		-	1,137	1,137
Issue of Share Capital		37,000	-	37,000
Balance at 31 December 2017		60,696	1,433	62,129
Adjustment on initial application of IFRS 9	5		(651)	(651)
Profit for the year 31 December 2018			2,362	2,362
Balance at 31 December 2018		60,696	3,144	63,840

The notes 1 to 19 form an integral part of these financial statements.

BCS PRIME BROKERAGE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 \$'000	31 December 2017 \$'000
Operating activities			
Profit before income tax		3,020	1,428
Adjustments for non-cash items:			
Depreciation		357	277
Changes in financial instruments held at fair value		124	(277)
Changes in non current assets measurement		126	-
Movements in working capital:			
Net change in repurchase agreement liabilities		160,643	251,499
Net change in reverse repurchase agreement assets		(244,194)	(216,733)
Increase in trade and other receivables, net of provision		(33,153)	(7,978)
Increase/(decrease) in trade and other payables, net of provision		29,511	(20,140)
Increase/(decrease) in client cash on TTCA accounts		41,397	27,128
Income tax paid		(658)	(319)
Net Cash inflow/(outflow) from operating activities (including cash held as collateral)		(42,827)	34,885
Investing activities			
Purchase of property, plant and equipment	9	(1,038)	(208)
Purchase of Investment		(1)	-
Net cash utilised in investing activities		(1,039)	(208)
Financing activities			
Proceeds from the issue of new shares		-	20,000
Long term Loan paid		(5,000)	-
Net cash generated from financing activities		(5,000)	20,000
Net increase/(decrease) in cash and cash equivalents		(48,866)	54,677
Cash and cash equivalents at 1 January		170,384	115,707
Cash and cash equivalents at 31 December (including cash held as collateral)		121,518	170,384

Interest received was \$30,538k (2017: \$28,365k). Interest paid was \$22,121k (2017: \$24,411k).

The notes 1 to 19 form an integral part of these financial statements.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018.

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 2018, the Company made a profit after tax of \$2,362k (2017: \$1,137k) and had net assets of \$63,840k (31 December 2017: \$62,129k). The Company has a projection of its Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash Flows up until 30 June 2020. This projection includes consideration of stress scenarios, 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. 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. The Company has an unencumbered cash reserve of \$4,300k 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 Internal Capital Adequacy Assessment Process ("ICAAP") 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 Management Section.

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.

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 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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

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.

Standards adopted during the year ended 31 December 2018

IFRS 15: Revenue From Contracts with Customers

1 January 2018

The Company adopted IFRS 15 "Revenue from Contracts with Customers" which specifies how and when revenue is recognized, but does not impact income recognition related to financial instruments in scope of IFRS 9.

Under IFRS 15 the Company introduced new accounting principles for the revenue recognition for all types of goods and services. A five step model was applied to all sales contracts, based on the transfer of goods and services to customers, and replaced the separate models for goods, services and contraction contracts included in IAS 11 Construction Contracts and IAS 18 Revenue. The five step model was to 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 and 5) recognise revenue as each performance obligation was satisfied.

Only fees and commissions revenues are in scope for IFRS 15. However, there is no impact on the timing or amount of revenues recognized due to implementation of the standard.

There was no impact from IFRS 15 implementation on the Company's Financial Position and Comprehensive Income.

IFRS 9: Financial Instruments

1 January 2018

Measurement

The Company adopted IFRS 9 "Financial Instruments", which replaced IAS 39, "Financial Instruments: Recognition and Measurement". Under IFRS 9, the classification of financial assets are determined by applying the contractual cash flows test which is referred to as "Solely payment of principal and interest" (SPPI) and a business model test.

For assets passing the SPPI test, a business model test assesses the objective of holding the asset. The business model test for financial assets can be summarised below:

Financial assets measured at amortised cost if they were held within a business model where the objective was to hold financial assets in order to collect contractual cash flows ("Hold to collect" business model).

Financial assets measured at fair value through other comprehensive income if they were held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets ("Hold to collect and sell" business model).

Financial assets are measured at fair value through the income statement if they did not meet the business model criteria of either "Hold to collect" or "Hold to collect and sell".

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

IFRS 9 did not impact classification of financial liabilities apart from the fact that fair value changes of liabilities due to changes in the credit risk of the liability could now be reported in Other Comprehensive Income ("OCI") rather than in Comprehensive Income.

IFRS 9 allowed 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 were 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 was the same as the requirements of IAS 39, except for the treatment of gains or losses that arose from an entity's own credit risk relating to liabilities designated at FVPL. Such movements were presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss arose.

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

	IAS 39	IFRS 9
Assets		
Cash and cash equivalents	Loans and receivables (At amortized cost)	At amortized cost
Reverse Repurchase Agreements	Loans and receivables (At amortized cost)	At amortized cost
Trade and other receivables	Loans and receivables (At amortized cost)	At amortized cost
Currency Swaps	FVPL	FVPL
Liabilities		
Client cash held as collateral (liabilities)	Financial liability not at fair value (At amortized cost)	At amortized cost
Trade and other payables	Financial liability not at fair value (At amortized cost)	At amortized cost
Repurchase Agreements	Financial liability not at fair value (At amortized cost)	At amortized cost
Currency Swaps	FVPL	FVPL

There was no impact on the financial statements in respect of classification and measurement of financial assets.

Expected Credit Loss

IFRS 9 introduced a new impairment model that required the recognition of expected credit loss ("ECL") on all financial assets at amortised cost or at fair value through Other Comprehensive Income.

The Company applied the three stage approach based on the extent of credit deterioration since origination to measure the credit loss allowances

Stage 1 - The Company recognised an allowance based on 12 month expected credit losses. This stage was applied to exposure from its initial recognition if there was no "significant increase in credit risk since initial recognition".

Stage 2 - Underperforming financial instrument. The Company recorded an allowance for the lifetime expected credit loss. The exposure moved into this stage if "the credit risk on that financial instrument had increased significantly since initial recognition".

Stage 3 - Impaired financial instrument: the Company recognised the lifetime expected credit losses and accrued interest income on the amortised cost of the financial instrument net of allowances.

Provisions for Stage 1 and 2 exposure were not required under IAS39 but are required under IFRS 9. Stage 3 refers to impaired exposures and the approach towards this Stage stays similar to that of under IAS39.

Financial Assets that were credit-impaired upon initial recognition were categorized within Stage 3 with a carrying value already reflecting the lifetime expected credit losses.

According to the standard the ECL was only calculated for financial assets at amortised cost.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

Under the new standard, the Company created provisions for guarantees and undrawn credit facilities which was not required under IAS 39.

The implementation of IFRS 9 has resulted in an opening reserve adjustment in Retained Earnings. Comparative financials have not been restated. The table below shows the impact of IFRS 9 on implementation with effect from 1 January 2018.

31-Dec 2017 Retained Earnings	ECL Provision Adjustment	01-Jan 2018 Retained Earnings
\$000	\$000	\$000
1,433	(651)	782

Please refer to Note 5 for the Expected Credit Loss calculation disclosure.

For hedge accounting IFRS 9 revised the requirements. The Company did not use hedge accounting under IAS 39 so there was no impact on the Company from changes in the hedge accounting rules.

Standards and amendments issued by the IASB and endorsed by the EU but effective after 31 December 2018

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.

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).

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 1, however for lessee accounting there will no longer be a distinction between operating and finance leases. Lessees will need to recognise both a right of use of an asset and a lease liability on the balance sheet for all leases. This standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted.

The Company assesses the impact of adopting this standard to be material. Both liabilities and assets of the Company will increase by the same amount which lies in the range of \$1,100k to \$1,700k.

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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

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 is derecognised upon disposal or when no future economic benefits are expected to arise from the use of the asset. Any gain or loss arising on derecognition of the asset is included in the Income Statement in the year the asset is derecognised.

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 of non-financial assets

At each reporting date, for Non-Financial Assets 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 2018

3. Summary of significant accounting policies (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 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.

Interest Income is recognised in comprehensive income using the effective interest rate ("EIR") method.

3.7 Expenses

Expenses incurred have been recognised on an accruals basis.

Interest Expense is recognised in comprehensive income using the effective interest rate method.

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 Title Transfer Collateral Agreement ("TTCA").

3.9 Financial assets and liabilities

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
- 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.

All other financial assets are classified as measured at FVTPL.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

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 relevant business activity are remunerated;
- 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.

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.

Prior to 1 January 2018 the Company used IAS39 for classification and measurement and 2017 numbers have not been restated.

Under IAS 39 there were the following categories of financial assets:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

And the following main categories of financial liabilities:

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

Financial assets at fair value through profit or loss comprised financial assets classified as held for trading. A financial asset was classified as held for trading if it was acquired principally for the purpose of selling or repurchasing it in the near term or if it was 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 the firm's existing exposure.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

Financial liabilities at fair value through profit or loss comprised of financial liabilities classified as held for trading. A financial liability was classified as held for trading if it was acquired principally for the purpose of selling or repurchasing it in the near term or if it was 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.

Loans, trade and other receivables were recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. The Company reviewed its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded under IAS39 in the income statement.

Netting of financial assets and liabilities

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.

Recognition and Derecognition of financial assets and liabilities

Financial assets and liabilities are recognized on the date on which the Company becomes a party to the contractual provision of the instrument. Financial assets and liabilities are measured initially at fair value plus transactions costs.

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 derecognizes financial liabilities when such liabilities is discharged or cancelled.

Impairment of Financial assets

Impairment of financial assets under IFRS 9 is done according to Expected Credit Loss methodology.

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 (for example 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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

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:

- Short Term Loans
- Other Receivables
- Off Balance Sheet and
- Repurchase Agreements

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

Prior to 1 January 2018 the Company applied IAS 39 for calculating impairment for the financial assets. Each financial asset was assessed at each balance sheet date to determine whether there is objective evidence that assets will not be recovered in full and, wherever necessary, an impairment provision was made.

Objective evidence means events that have occurred and that have adversely impacted the estimated future cash flows from the assets. These events included:

- becoming aware of significant financial difficulty of the client or counterparty;
- a breach of contract, including default, delinquency in payments or missing margin calls;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

The impairment assessment includes estimating the expected future cash flows from the asset or the group of assets, which are discounted using the original effective interest rate calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance was posted.

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 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in an arm's length transaction at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair Value measurement requires from the Company to classify its assets and liabilities according to the three level fair value hierarchy defined below.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

Level 1- valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets

Level 2-valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable

Level 3: – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

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

The Company establishes fair value using recognised valuation techniques such as the use of externally available market prices or other used by market participants.

3.11 Loans

Loans are recognised initially at fair value plus transaction costs. 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.

3.12 Trade and other receivables

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

3.13 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.

3.14 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 to 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.

3.15 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 16).

3.16 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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Summary of significant accounting policies (continued)

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.

3.17 Pension Costs

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 recorded as an expense in the income statement. The Company pays no other retirement benefits to the employees.

The Company does not operate a defined benefit plan.

3.18 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.

3.19 Financial guarantees and loan commitments

Loan commitments are commitments to provide loan to a specific client. From 1 January 2018 the Company recognized ECL for loan commitments. Such provisions are reflected in liabilities on the balance sheet.

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, Deferred Tax Asset 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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. Financial risk management (continued)

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

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, 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 2018 the Company's foreign exposure to EUR was a liability of \$634k (31 December 2017: asset \$152k), foreign exposure to GB Pounds Sterling was a liability of \$932k (31 December 2017: liability \$682k) and to Russian Rouble was a liability of \$2,505k (31 December 2017: liability \$1,037k). The Company actively manages its foreign exchange exposures.

As at 31 December 2018, 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:

	+1%	-1%
	\$'000	\$'000
EUR	(6)	6
GBP	(9)	9
RUB	(25)	25
Total	(40)	40

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5. Financial risk management (continued)

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 loans and 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 and site visits or calls must be conducted. Exposures are monitored and reported daily.

At the 31 December 2018 the company had credit facilities available to clients totalling \$7,000k which had been provided but not used (31 December 2017: \$8,000,000k).

The following table analyses the financial instruments to which the impairment requirements of IFRS 9 are applied and the related provision for ECL.

	31-Dec-18							
	Gross Carrying Amount	ECL Provision balance			Net Carrying Amount	ECL Provision movements		
		Stage1/Stage2	Stage3	Total		Stage1/Stage2	Stage3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Cash in Bank and Broker Accounts	121,523	(5)	-	(5)	121,518	(5)	-	(5)
Reverse Repurchase Agreements	748,584	(906)	-	(906)	747,678	(614)	-	(614)
Short Term Loans	20,400	(29)	-	(29)	20,371	(2)	-	(2)
Other Receivables	61,221	(67)	(1,622)	(1,689)	59,532	(2)	(842)	(844)
Long Term Loan*	5,092	(126)	-	(126)	4,966	(126)	-	(126)
Total Financial Assets at amortised cost on balance sheet	956,820	(1,133)	(1,622)	(2,755)	954,065	(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)

* - long term loan is classified as Stage 1.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5. Financial risk management (continued)

	31-Dec-17				31-Dec-17
	Gross Carrying Amount	ECL Provision balance (IFRS 9)			Provision under IAS39
		Stage1/Stage2	Stage3	Total	
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash in Bank and Broker Accounts	170,384	-	-	-	-
Reverse Repurchase Agreements	503,740	(292)	-	(292)	-
Short Term Loans	19,530	(27)	-	(27)	-
Other Receivables	28,184	(65)	(780)	(845)	(780)
Total Financial Assets at amortised cost on balance sheet	721,838	(384)	(780)	(1,164)	(780)
Off balance sheet exposure					
Loan commitments	8,000	(11)	-	(11)	-
Off-balance sheet client positions	-	-	(814)	(814)	(814)
Collateral on repurchase agreements	595,953	(256)	-	(256)	-
Total amount off balance sheet	603,953	(267)	(814)	(1,081)	(814)
Total ECL Provision:		(651)	(1,594)	(2,245)	(1,594)

Due to the fact that the Company does 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 2017. Most of Company's exposure was for very short-term maturity: on demand or within one week. However, the Company applied a 6 months probability of default for Stage 1 and 2 as most of exposure was continually rolled forward or not fully withdrawn from the counterparties.

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

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.

Stage 3, includes a provision of \$1,622k in 31 December 2018 (31 December 2017: IAS39 provision \$1,594k). It relates to a single credit event that happened in 2017. In 2017 the Stage 3 provision was split into provision against assets and provision against off balance sheet exposure. The latter related to open positions in securities by the client. These open positions were liquidated in early 2018 which caused an increase of the total provision by \$28k and a reclassification of \$814k from provision for off balance sheet exposure to provision for on balance sheet exposure.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. Financial risk management (continued)

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 2018 and 31 December 2017.

Contractual maturities of assets and liabilities as at 31 December 2018 and 31 December 2017:

	On demand (up to 3 days) \$'000	3d to 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 2018										
Long term Loan	-	-	-	-	-	-	-	4,966	-	4,966
Cash and cash equivalents	121,518	-	-	-	-	-	-	-	-	121,518
Receivable from related entity	-	2,960	-	-	-	-	-	-	-	2,960
Repurchase agreements	701,854	45,824	-	-	-	-	-	-	-	747,678
Loan and other receivables	9,805	65,668	672	90	230	117	153	207	-	76,943
Swaps	20	-	-	-	-	-	-	-	-	20
Total current assets	833,197	114,452	672	90	230	117	153	207	-	949,119
Trade and other payables	-	28,560	-	-	-	-	-	-	-	28,560
Accrued expenses	-	-	6,935	5,305	-	-	-	-	-	12,240
Client cash held under TTCA	168,941	-	-	-	-	-	-	-	-	168,941
Corporation Tax	-	-	-	-	111	-	-	-	-	111
Payable to related entity	-	2,888	-	-	-	-	-	-	-	2,888
Repurchase agreements	656,019	22,374	-	-	-	-	-	-	-	678,393
SWAP	131	-	-	-	-	-	-	-	-	131
Total liabilities	825,091	53,822	6,935	5,305	111	-	-	-	-	891,264
Net liquidity surplus/(deficit)	8,106	60,630	(6,263)	(5,215)	119	117	153	5,173	-	62,821

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FOR THE YEAR ENDED 31 DECEMBER 2018

5 Financial risk management (continued)

	On demand (up to 3 days) \$'000	3d to 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	388,374	115,366	-	-	-	-	-	-	-	503,740
Loan and other receivables	19,631	21,413	142	88	98	203	-	-	-	41,575
Swaps	13	-	-	-	-	-	-	-	-	13
Total assets	578,402	142,138	142	88	98	203	-	-	-	721,071
Trade creditors	-	5,128	-	-	-	-	-	-	-	5,128
Accrued expenses	-	-	2,415	5,326	-	-	-	-	-	7,741
Client cash held under TTCA	127,544	-	-	-	-	-	-	-	-	127,544
Corporation Tax	-	-	-	-	13	-	-	-	-	13
Payable to related entity	-	380	-	-	-	-	-	-	-	380
Repurchase agreements	413,416	104,042	-	-	-	-	-	-	-	517,458
Total liabilities	540,960	109,550	2,415	5,326	13	-	-	-	-	658,264
Net liquidity surplus/(deficit)	37,442	32,588	(2,273)	(5,238)	85	203	-	-	-	62,807

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. Cash and cash equivalents and the market value of securities placed by the Company with 3rd parties exceeded cash and the market value of securities which the Company received from clients on TTCA accounts as of 31 December 2018.

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 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 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.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5 Financial risk management (continued)

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 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.

6. Fair values of financial instruments

The following table details the categories of financial assets and liabilities held by the Company at 31 December 2018 and sets out the fair values of financial instruments not measured at fair value and analyses them by the level of fair value hierarchy into which each fair value measurement is categorised.

	Notes	31 Dec 2018					31 Dec 2017				
		Carrying Amount	Fair Value				Carrying Amount	Fair Value			
			Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial Assets											
Long term Loan	11	4,966		4,966		-				-	
Cash and cash equivalents		121,518		121,518		170,384		170,384		170,384	
Trade and other receivables	8	79,903		79,903		46,934		46,934		46,934	
Reverse repurchase agreements	7	747,678		747,678		503,740		503,740		503,740	
Total financial assets at amortised cost		954,065	-	954,065	-	954,065	721,058	-	721,058	-	721,058
Financial assets at fair value											
Currency swaps		20	20			13	13			13	
Total financial assets		954,085	20	954,065	-	954,085	721,071	13	721,058	-	721,071
Financial Liabilities											
Client cash held under TTCA		168,941		168,941		127,544		127,544		127,544	
Total trade and other payables	12	43,799		43,799		14,277		14,277		14,277	
Interest bearing loan		-		-		-		-		-	
Repurchase Agreement liabilities	7	678,393		678,393		517,458		517,458		517,458	
Total Financial liabilities at amortized cost		891,133	-	891,133	-	659,279	-	659,279	-	659,279	
Financial liabilities at fair value											
Currency swaps		131	131			-	-			-	
Total financial liabilities		891,264	131	891,133	-	659,279	-	659,279	-	659,279	

See note 18 for details of amounts held with related parties.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

7. Repurchase agreements ("REPO")

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Reverse REPO		
Funding provided	747,678	503,740
Collateral received	765,696	547,837
Direct REPO		
Funding received	678,393	517,458
Collateral provided	691,452	595,953

Collateral received and provided are reported based on market prices of the securities at the end of 2018 and 2017 respectively.

8. Trade and other receivables

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Amounts due from related entities	2,960	5,359
Prepayments	905	446
Loan receivables	20,371	19,530
Other receivables	55,267	21,572
Corporation tax receivable	240	22
Deferred Tax Asset	94	-
VAT receivable	66	5
Total trade and other receivables	79,903	46,934

Other receivables includes a rent deposit of \$205k (31 December 2017: \$155k).

See note 18 for details of amounts held with related parties.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018	1,188	203	47	260	1,698
Additions	345		147	546	1,038
As at 31 December 2018	1,533	203	194	806	2,736
Depreciation					
As at 1 January 2018	872	183	46	260	1,361
Charge for the year	269	20	18	50	357
As at 31 December 2018	1,141	203	64	310	1,718
Net book value as at					
As at 31 December 2018	392		130	496	1,018
As at 31 December 2017	316	20	1	-	337
As at 31 December 2016	338	63	5	-	406

10. Long term loan

In 2018 the company provided a long term loan to a regulated investment firm in the US for \$5,000k. The loan is valued at amortised cost using the effective interest rate method and is reduced by ECL amount. There has been no evidence of significant deterioration of credit quality of the loan since it was given.

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Long term loan	4,966	-
	4,966	-

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. Trade and other payables

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Trade payables	1,630	976
Other payables	25,989	3,482
Amounts due to related parties	2,888	581
Corporation tax payable	-	-
Other tax and social security	898	651
Deferred tax liability	111	13
Accrued expenses	11,810	7,742
Defined contribution pension liabilities	43	19
Provision for credit loss for off-balance sheet items	430	813
Trade and other payables	43,799	14,277
Client cash held under TTCA (liabilities)	168,941	127,544
Total trade and other payables	212,740	141,821

12. Share capital

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Allotted, called up and fully paid		
56,165,300 Ordinary shares of \$1.00 each	60,696	60,696
	60,696	60,696

The Company redenominated its share capital from Great British pounds into US dollars 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 due to historical translation effect of \$4,531k.

In February 2019, the Company also issued additional shares for \$30,000k which was fully paid by its existing shareholding company. Please see note 19 for more details.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

13. Directors' emoluments and Staff costs

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Directors emoluments		
Emoluments	1,918	1,445
Pension and other benefits	33	14
Total Directors Emoluments	<u>1,951</u>	<u>1,459</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 \$903k (31 December 2017: \$799k), 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.

	31 December 2018 \$'000	31 December 2017 \$'000
Staff costs comprises		
Wages and salaries (including directors)	22,318	19,428
Pension costs (including directors)	154	74
Total	<u>22,472</u>	<u>19,502</u>
Average number of employees (including directors) during the year	<u>248</u>	<u>187</u>

During the year the Company made contributions of \$154k (31 December 2017: \$74k) to a defined contribution pension scheme. Outstanding pension contributions at the year-end are disclosed in note 11.

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

14. Operating Profit for the year

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

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Auditor's remuneration:		
- fees payable to the auditor for the audit of the Company's financial statements	152	162
- CASS audit	9	9
Depreciation of property, plant and equipment	357	277
Operating lease rentals	512	244
Net foreign exchange losses	379	48

15. Taxation

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Corporation tax expenses		
Current year income tax charge	436	302
Adjustments in respect of prior periods	223	(11)
Foreign tax relief	(110)	(78)
Foreign tax suffered	116	78
Foreign exchange differences	(12)	4
	<u>653</u>	<u>295</u>
Deferred tax		
Origination and reversal of temporary differences	211	(9)
Effect of changes in tax rates	(22)	1
Adjustment in respect of prior periods	(184)	4
Total income tax expense	<u>658</u>	<u>291</u>
Equity Items		
Deferred tax current year charge/(credit)	(111)	-

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

15. 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 2017: 19.25%). The differences are explained below:

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Current tax reconciliation		
Profit before corporation tax	3,020	1,428
Tax calculated at corporation tax rate in the UK at 19.00% (31 December 2017: 19.25%)	575	274
Effects of:		
Expenses not deductible for tax purposes	73	18
Adjustment in respect of prior years	38	(7)
Tax rate changes	(22)	1
Effect of overseas tax rates	6	1
Foreign exchange differences	(12)	4
Tax charge for the year	658	291

Factors affecting future tax charge

The headline rate of UK corporation tax is 19% and 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 balance sheet date the deferred tax balances have been calculated with reference to this rate.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

16. Operating Leases

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

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Fall due in not more than one year	426	194
In one to five years	1,279	-
	<u>1,705</u>	<u>194</u>

17. 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.

18. Related party transactions

During the year the Company paid emoluments totalling \$1,918k to Directors of the Company (2016: \$1,445k). Total compensation paid to employees exerting significant influence over the Company for the year 2017 is \$8,244k (2017: \$4,295k). 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 \$'000	Expenses to related parties \$'000	Balance receivable as at 31 December \$'000	Balance payable as at 31 December \$'000
2018	53,824	12,708	687,957	386,934
2017	44,601	5,539	404,589	314,152

19. Subsequent events

In February 2019 the Company issued additional shares for \$30,000k which have been fully paid by its existing shareholding company.

On 8 February 2019 the Company has closed a transaction of acquiring a new business. The purchase comprised of the acquisition of an Australian non-regulated entity, fixed assets and intellectual property.