

Company Registration No. 08040031 (England and Wales)

BCS PRIME BROKERAGE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



BCS PRIME BROKERAGE LIMITED

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BCS PRIME BROKERAGE LIMITED

COMPANY INFORMATION

Directors	Timothy Bevan Edward Golosov Alexander Romer-Lee Wendy Langridge Gordon McCulloch (appointed 8 March 2019) Nikita Ponomarev (appointed 24 June 2019) Maxim Safonov (appointed 21 July 2020) Jeremy Foster (appointed 22 February 2021) Bradley Duke (resigned 24 April 2019) Roman Lokhov (resigned 20 June 2020)		
Registered office	99 Bishopsgate London EC2M 3XD		
Principal Bankers	National Westminster Bank PLC 1 Princes Street London EC2R 8BP BrokerCreditService (Cyprus) Limited Spyrou Kypianou & 1 Oktovriou, 1 VASHIOTIS KLANDE OFFICES 105066, 1st floor, Mesa Geitonia, 4004 Limassol, Cyprus ABN AMRO Clearing Bank N.V P.A.C HQ0090 Gustav Mahlerlaan 10 1082 PP Amsterdam, Netherlands Alfa Capital Markets Limited 3 Themistocles Dervis Street, Julia House, 4th Floor, 1066, 1066, Nicosia, Cyprus	JPMorgan Chase Bank, N. A. HB01-0320, Bournemouth BH7 7DA BCS LLC Prospekt Mira, 69 bld. 1 Moscow, Russia Euroclear Bank SA/NV 1 Boulevard du Roi Albert II B-1210 Brussels, Belgium G. H. Financials Limited 4th Floor, 29 Ludgate Hill London, EC4M 7JR	J.P. Morgan Securities PLC 6th Floor, 25 Bank Street London, E14 5JP BCS Bank AO 630099 Novosibirsk 37 Sovetskaya Street, Russia Nomura International PLC 1 Angel Lane London, EC4R 3AB
Independent Auditor	Mazars LLP Tower Bridge House St Katharine's Way London United Kingdom E1W 1DD		

BCS PRIME BROKERAGE LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the Strategic Report and financial statements of BCS Prime Brokerage Limited ("the Company") for the year ended 31 December 2020. The functional and reporting currency of the Company is United States Dollars ("USD").

Principal activity and review of business

BCS Prime Brokerage Limited is a full service broker offering high-touch and low-touch solutions to trade international assets both within the Russian Federation and on global markets. The Company's approach is based on a hybrid model of capital markets and technology specialists, supported by strong financing and research capabilities through the wider Group ("BCS Group"), headed by FG BCS Ltd, a company registered in Cyprus (of which BCS Prime Brokerage Limited is a 100% subsidiary).

BCS Group started as a retail brokerage firm in 1995 in Russia, and has become one of the leading financial services groups there, with a trading share on the Moscow Exchange of over 25% in 2020. BCS Global Markets and Investment Banking ("GMIB") business is part of BCS Group, which targets Russian domestic and international institutional clients. GMIB has operations in Russia, Cyprus, US and UK, providing its clients with access to financial markets in Russia, Europe, the US 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.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") as a significant IFPRU firm (registration number 586463) to provide brokerage services, and (under registration number 805008) to provide payment services. The Company's principal trading permission, received from the FCA in April 2019, was activated in September 2020. The ability to take short-term trading positions using its balance sheet allowed the firm to provide better services for its high-touch clients. During the year the Company continued to develop the synthetic prime brokerage business which currently covers the Russian market and international markets. The Company's target client base comprises professional investors and regulated global institutional clients. The Company has a branch in Moscow providing support functions and continues to invest in infrastructure, people and the trading platform both in London and in the branch. The Company's branch in Cyprus, established at the end of 2019, did not have any business operations during the year ended 31 December 2020.

The majority of the Company's assets are short-term dated. Repo transactions on average have a maturity of less than a week. Funding facilities to clients are revocable immediately or at most within two weeks. Normal trading settlement occurs within two-three business days. Trading commissions and interest from margin lending are therefore realised in the Company's financial results promptly. During 2020 the Company continued to diversify its loans business by participating in corporate loans, both solely and on a syndicated basis. The Company also receives a material portion of revenues through transfer pricing arrangements with other companies of the BCS Group.

The directors have approved the 2021-2023 Strategy, which aims to continue to position the Company as the leading independent Russian brokerage internationally. The plan will be to further consolidate the Company's position in its three main business areas – Markets, Prime Services and Corporate & Investment Banking (CIB). The Board will further the development of prime services into global markets, build up our fixed income and FX capabilities, as well as expand the range of client services dedicated to execution business. The directors are confident that the operating strategy is robust and sustainable in the current business environment, and therefore they do not anticipate significant changes in the nature of the Company's principal activities going forward.

Results for the year

In the opinion of the directors the results for the year ended 31 December 2020 and the state of the Company's affairs as at 31 December 2020 are satisfactory. The results are in line with directors' expectations. A more detailed description of the results and financial position is set out below.

Net profit after tax for the year totalled \$3,952k (2019: \$5,610k). During the year ended 31 December 2020, a dividend was declared and paid for the amount of \$4,958k (31 December 2019: \$nil).

BCS PRIME BROKERAGE LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

Development, performance and position of the Company, including key performance indicators ("KPIs")

In line with the Company's operating objectives, the directors closely monitor all business activities, in particular, the level of external brokerage and other revenues, the operating cost base, cash expenditure and the regulatory capital position. Detailed financial performance reports are prepared on a daily, weekly and monthly basis to enable management and the Board to monitor, control and assess the Company's performance.

For the purposes of high-level monitoring, the Company has the following KPIs:

	2020	2019
Return on Equity	3.84%	6.90%
Cost to Income	83.5%	77.1%
Regulatory capital (in millions of USD)	94.4	93.7

The Board of directors responded proactively to the challenges of the business environment associated with the onset of the global pandemic in early 2020. The immediate priorities at that time, and subsequently as the year progressed, included a focus on sustainable business continuity, enhanced client service, operational risk management with remote working, and employee wellbeing. The directors are satisfied with the performance for the year in these circumstances. The monitoring and out-turn of the KPIs noted above provides a fair reflection of the business. The financial position at the year-end remains strong.

Total assets increased by 97% compared to 2019, due to various factors, such as positive results in sale and repurchase activity in the second half of 2020, development of new Prime Brokerage products and the start of proprietary trading, which resulted in an increase in the Company's reverse repurchase balances from \$155m to \$425m; a growth in the Company's open positions in financial trading instruments from \$nil to \$77m, which was mainly attributable to equity swaps and related hedges; an increase in settlement balances from \$8m to \$92m due to switch to trade date accounting for regular way purchases and sales for equity and fixed income securities, and forex exchange spot trades.

Within the same period net profit after tax decreased by 30% to \$4m. This was predominately driven by increased staff costs mainly due an increase in variable remuneration as a result of higher operating income of GMIB and the Company. Fees and commission income increased by 13% due to substantial revenues generated from increased client trading activity in the first half of 2020 due to the market volatility as a result of COVID-19. The Company reported lower net interest income in the REPO/security lending business due to market conditions and the effects of the pandemic, which decreased by 12% compared to 2019. This was partially offset by an increase in interest income from loans to customers by 53% relating to the successful growth of the new loan business. The longer-term trends remain positive with 2020 net income 73% higher compared to 2018.

The Company's measure of ROE (calculated by dividing net profit by average total equity) decreased by 3 percentage point due to both a decrease in net profit described above, and increased average equity in 2020 compared to average equity in 2019.

Cost to income ratio ('CTI') is calculated by dividing the Company's operating expenses by its operating income. CTI ratio increased by 6 percentage points due to an increase in staff costs described above.

Principal risks and uncertainties

As a business operating in the international markets, the Company is affected by a range of risk factors. The principal risks and uncertainties of the Company relate primarily to credit risk, market risk, liquidity risk, operational and reputational risk. The Company's risk management framework comprises a combination of risk identification, quantification, control and risk monitoring and reporting processes designed to achieve effective risk management in line with the risk appetite policies approved by the Board. Additional information and analysis of these and other methods of management of these risks is detailed in note 5 of the financial statements. The market risk of the Company is limited and currently comprises mainly of a small portfolio of listed equities held to facilitate client activities, and foreign exchange ("FX") exposure

BCS PRIME BROKERAGE LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

resulting from normal business activities. Credit risk is managed primarily through counterparty credit assessments, daily monitoring and reporting of credit limits and exposures, and margin requirements. The Company manages liquidity risk through maintaining sufficient cash with banks, and matching maturities of receivables and payables to meet its ongoing commitments. The company manages operational risk using a variety of tools, including Operational Risk and Control Self Assessments, Key Risk Indicators ("KRIs") and incident reporting and management. The Company seeks to maintain and manage an optimal operating capital structure, ensuring compliance with minimum regulatory capital requirements. The Company's ICAAP is reviewed and updated semi-annually. Reputational risk is considered to be a sub-set of operational risk, and is actively discussed at the weekly Executive Committee.

The global coronavirus pandemic involving the spread of Covid-19 during 2020 presented our business with a range of different risks, including health and safety, operational, business continuity and financial impacts. During the year, the safety of our employees and clients has been the Company's main concern. The measures that the Board put in place during the year to mitigate as far as possible the Covid-19 impact on the firm's employees and clients were successful. The Company has demonstrated the ability to provide a continuous service to its clients in this mode, without compromising risk or operational capabilities, and all key functions continue to operate without disruption. The Board continues to respond dynamically to protect the Company and its key stakeholders. Although it does seem that the worst of the pandemic may be nearing its end, nonetheless management and the Board will continue to monitor developments very closely and respond accordingly.

The Company continues to monitor the continuing impact of Brexit on the current and future prospects and performance of the Company. The Brexit analysis undertaken by the Company in the prior year proved to be accurate. The Company's clients continue to be predominantly from non-EU countries, and the Company's core products are from non-EU markets. Management of the Company continues to closely monitor the post-Brexit situation, and will respond accordingly as more information emerges, particularly related to the ongoing impact on financial markets.

Section 172 Statement

The directors of the Company, like those of all UK companies, must act in accordance with a set of general duties. The Board and its directors recognise that the long term success of our business is highly dependent on the manner in which it interacts with its main stakeholders, and by taking their views into account. During the course of the year, the Board continued to very closely monitor and manage stakeholder engagement as an important aspect of Company activities, and in particular this year as part of its response to the pandemic and market disruption caused by Brexit. The following table sets out some insight into how the Board has discharged its duties under section 172 Companies Act 2006, and how key stakeholders' considerations are addressed by the Company. Where it may not be practicable for the Board to engage directly with a stakeholder group, the Executive Committee will feed directly to the Board.

Stakeholder	Who are our main stakeholders?	Their primary interests	How directors engage	How the Board engage
Our Clients	<ul style="list-style-type: none">• Our clients are corporates, international financial institutions and others market participants who look to us to provide a range of brokerage and other services.	<ul style="list-style-type: none">• Fair treatment, including fair pricing• High performance and high standards of business conduct• Confidentiality of data• Strong client relationships	<ul style="list-style-type: none">• Client relationship managers• Client feedback and engagement surveys• Semi-annual/annual account review• Regular reviews of business conduct standards	<ul style="list-style-type: none">• Ongoing assessment of client requirements• Client relationship management updates• Regular Board updates from business lines and committees• Annual report and accounts
Our People	<ul style="list-style-type: none">• Our people are our most valuable asset, and are critical to the success of our business, serving clients, protecting and growing our business and reputation.	<ul style="list-style-type: none">• Fair pay and reward• Health and safety• Development and training• Diversity and inclusion• Communication and engagement	<ul style="list-style-type: none">• Staff handbook, internal communications and intranet• Training and development• Town halls• Engagement surveys	<ul style="list-style-type: none">• Frequent CEO communication to the Board• Regular business updates to staff by the CEO, including topics discussed by the Board• Board HR updates

BCS PRIME BROKERAGE LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Stakeholder	Who are our main stakeholders?	Their primary interests	How directors engage	How the Board engage
Our suppliers	<ul style="list-style-type: none"> • Third parties who supply us with goods and services as well as financial intermediaries, contractors and consultants. 	<ul style="list-style-type: none"> • Fair procurement, standards of trading and payment terms. • Terms and conditions • Human rights and modern slavery 	<ul style="list-style-type: none"> • Engagement with senior management • Annual review of business relationships • ESG reporting 	<ul style="list-style-type: none"> • Engagement with the Executive team • Modern slavery statement
Our Communities	<ul style="list-style-type: none"> • Our communities are our local and global societies we and our employees operate in on a daily basis. 	<ul style="list-style-type: none"> • Openness and transparency • Compliance with all relevant legislation • Sustainability, environment and energy use 	<ul style="list-style-type: none"> • Group and Company website • Community engagement, charity, philanthropy 	<ul style="list-style-type: none"> • Support of local businesses through client and staff events • Participation in local charity events (though COVID has restrained this activity in 2020)
Our Investors	<ul style="list-style-type: none"> • Our sole shareholder is our parent entity, BCS Limited 	<ul style="list-style-type: none"> • Strategic planning • Performance of the business • Employee and client experience • Return on equity and other KPIs 	<ul style="list-style-type: none"> • Regular market updates and business performance meetings • KPI monitoring • Client experience monitoring 	<ul style="list-style-type: none"> • BCS Group Board engagement • Regular Strategy and financial results updates • Annual Strategic Review
Our Regulators	<ul style="list-style-type: none"> • The Financial Conduct Authority and regulators in other jurisdictions we operate in. 	<ul style="list-style-type: none"> • Compliance • Financial norms • Risk management • Data protection and privacy 	<ul style="list-style-type: none"> • Regular communications and meetings • Returns of information • Participation in regulatory initiatives 	<ul style="list-style-type: none"> • Regular Board updates via Board Audit Committee • Regular meetings between FCA and Board Directors • Regular business line updates on regulatory matters

By order of the Board



Timothy Bevan
Director
29 March 2021

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report and audited financial statements for the Company for the year ended 31 December 2020.

As of 31 December 2020 the Company has two branches incorporated outside the UK – Moscow, Russia and Limassol, Cyprus.

Directors

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

Timothy Bevan
Edward Golosov
Alexander Romer-Lee
Wendy Langridge
Gordon McCulloch (appointed 8 March 2019)
Nikita Ponomarev (appointed 24 June 2019)
Maxim Safonov (appointed 21 July 2020)
Jeremy Foster (appointed 22 February 2021)
Roman Lokhov (resigned 20 June 2020)
Bradley Duke (resigned 24 April 2019)

Going concern

The Board has undertaken a detailed analysis of the business, including cash flows, liquidity, regulatory capital and profitability, in order to support the going concern statement. The Company has performed in line with budget and has been profitable in recent years. Management have a good record of historical accuracy of financial models and predictions. Regulatory reports (ICAAP and ILAA) continue to demonstrate the Company's robust financial condition and compliance with regulatory norms. Financial projections and cash flow forecasts prepared for a period of at least 12 months from the signing date of these financial statements, show strong financial and operational viability of the business, including in appropriate stress scenarios. Management forecasts have also been sensitised to reflect known major variables and plausible downside scenarios, including possible continued impacts of the COVID-19 pandemic and its impact on the global economy, as well as possible continued disruption from Brexit. Following the additional investment of \$30,000k in the equity of the Company during 2019, the Company continues to benefit from the financial support of the parent company.

The Board of directors are confident that the financial forecasts demonstrate the Company's ability to generate profits and cash in the year ending 31 December 2021 and beyond, and have a reasonable expectation that the Company will have adequate resources to continue in operation for at least 12 months from the signing date of these financial statements.

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. Business relationships are an important element of the Company's activities, these are described in more detail in the Strategic Report s172 reporting above.

Dividends

During the year ended 31 December 2020, a dividend was declared and paid in the amount of \$4,958k (2019: \$nil). The profit after tax for the year ended 31 December 2020 is \$3,952k. Subsequent to the year-end, on the 24th of March 2021, the Board of directors declared a dividend of \$2,964k.

Employee welfare, inclusion and diversity

The Board of directors oversees a business environment which encourages employee participation, and is committed to developing a team of individuals with the best skills to help the Company realise its goals, regardless of their age, faith, ethnicity, gender identity, sexual orientation, physical capacity and background. The Board monitors its diversity and

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

inclusion strategy on a regular basis. In particular, applications for employment by disabled people are fully and fairly considered with regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who became disabled during the employment to continue their career within the Company. Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled.

Capital position

The Company's regulatory capital was \$94,361k as at 31 December 2020 (31 December 2019: \$93,655k).

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.

Financial risk management

The Company's policies and objectives regarding financial risk management in relations to the different types of business transactions, as well as hedging and associated internal controls, remained consistent throughout the year, and were adapted successfully in line with Board and management decisions in order to respond to the significant disruption in business and markets associated with the Covid-19 pandemic. Further details of financial risk management are set out in note 5 to the financial statements.

Third party indemnity

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force at the date of approval of the directors' report and financial statements.

Streamlined Energy and Carbon Reporting

The Board continues to closely monitor the developments and impacts on its strategy and business in relation to climate change and associated risks. The Company is in the process of implementing a Climate Risk Assessment within its business lines, in particular its lending business. The Board is currently in the process of designing and implementing a Climate Risk Framework, which will enable the Company to fully comply with the guidelines issued by regulators and other industry bodies. The Board is committed to reducing its carbon footprint and minimising energy use, and works closely with our landlord, suppliers, and others in order to ensure it reduces energy use and uses as much as possible energy from sustainable sources.

GHG Emissions and Energy Use Data UK for the year ended 31 December 2020

Energy consumption used to calculate emissions, kWh	147,674
Emissions from purchased electricity tCO ₂ e (Scope 2, location-based)	34
Intensity ratio: gross tCO₂e per \$1,000 operating income	0.0008

Political and charitable contributions

During the year ended 31 December 2020 the Company made no political or charitable donations (31 December 2019: \$1.5k).

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

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

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

By order of the Board



.....
Timothy Bevan
29 March 2021

99 Bishopsgate
London
EC2M 3XD

BCS PRIME BROKERAGE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 accounting standards in conformity with the requirements of the Companies Act 2006.

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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 2020 which comprise the statement of financial position as at 31 December 2020, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards in conformity 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our audit procedures to evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Evaluating the directors' method to assess the company's ability to continue as a going concern;
- Reviewing the directors' going concern assessment, which incorporated severe but plausible scenarios;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern; and
- Reviewing the appropriateness of the directors' disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report and financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the UK tax legislation, pensions legislation, employment regulation and health and safety regulation, anti-bribery, corruption and fraud, money laundering, non-compliance with implementation of government support schemes relating to COVID-19, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements, such as the Companies Act 2006.

We evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- Discussing with the directors and management their policies and procedures regarding compliance with laws and regulations;
- Communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:


- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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.


Rudi Lang (Mar 29, 2021 21:32 GMT+1)

Rudi Lang (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St Katharine's Way
London
E1W 1DD
29 March 2021

BCS PRIME BROKERAGE LIMITED**STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2020**

(in thousands of US Dollars)	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	14	54,769	56,911
Settlement balances	22	91,990	7,761
Receivables under reverse repurchase agreements	15	424,944	154,797
Trading assets except derivatives	16	75,139	-
-pledged under repurchase agreements		7,891	-
-unpledged		67,248	-
Derivative assets	17	2,318	44
Investment securities	18	6,694	6,112
Investment in subsidiary	19	-	159
Loans to customers	20	111,323	170,844
Property and equipment	23	2,378	1,867
Intangible assets	24	22	36
Deferred tax assets		50	76
Other assets	21	30,499	7,187
Total assets		800,128	405,794
Liabilities			
Settlement balances	22	91,766	5,385
Payables under repurchase agreements	15	278,026	85,740
Customer accounts	25	258,541	192,616
Trading liabilities except derivatives	16	15,540	-
Derivative liabilities	17	2,820	323
Deposits and borrowings	26	40,760	-
Current tax liabilities		339	1,220
Provisions	27	180	198
Deferred tax liabilities		13	3
Other liabilities	28	13,700	20,838
Total liabilities		701,685	306,323
Equity			
Share capital	29	90,696	90,696
Fair value reserve		(1)	21
Retained earnings		7,748	8,754
Total equity		98,443	99,471
Total equity and liabilities		800,128	405,794

The accompanying notes 1 to 34 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 2021
Company Registration No. 08040031

BCS PRIME BROKERAGE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of US Dollars)	Notes	31 December 2020	31 December 2019
Fee and commission income	7	67,026	58,725
Fee and commission expense	7	(42,215)	(36,889)
Net fee and commission income	7	24,811	21,836
Interest income using the effective interest rate method	8	43,015	98,327
Other interest income/(expense)	8	(55)	(43)
Interest expense	8	(24,142)	(78,830)
Net interest income	8	18,818	19,454
Net trading income	9	5,420	(21)
Impairment losses on financial instruments		(2,871)	(665)
Net gain on sale of debt securities measured at FVOCI	10	2	1,044
Net income from other financial instruments at FVTPL	11	(750)	(1,829)
Net (loss)/gain from foreign exchange		(1,286)	341
Other operating income and costs		515	(1,130)
Net operating income		44,144	40,160
Impairment losses on other assets	19	-	(1,634)
Administrative and other operating expenses	12	(39,206)	(31,494)
Profit before tax		4,938	7,032
Income tax expense	13	(986)	(1,422)
Profit for the year		3,952	5,610
Other comprehensive income (loss)			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments):			
Debt investments at FVOCI – net change in fair value		(27)	25
Income tax relating to items that are or may be reclassified to profit or loss:		4	(4)
Total items that are or may be reclassified subsequently to profit or loss		(23)	21
Other comprehensive income (loss) for the period		(23)	21
Total comprehensive income		3,929	5,631

The accompanying notes 1 to 34 form an integral part of these financial statements.
The profit for the year is derived from continuing activities and is attributable to the equity shareholder of the Company.
There are no minority interests.

BCS PRIME BROKERAGE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of US Dollars)	Share capital	Fair value reserve	Retained earnings	Total equity
Balance at 31 December 2018	60,696	-	3,144	63,840
Total comprehensive income				
Profit for the period	-	-	5,610	5,610
Other comprehensive income				
Debt investments at FVOCI – net change in fair value	-	25	-	25
Tax on other comprehensive income	-	(4)	-	(4)
Total comprehensive income	-	21	5,610	5,631
Contributions and distributions				
New shares issued	30,000	-	-	30,000
Total contributions and distributions	30,000	-	-	30,000
Balance at 31 December 2019	90,696	21	8,754	99,471
Total comprehensive income				
Profit for the period	-	-	3,952	3,952
Other comprehensive income				
Debt investments at FVOCI – net change in fair value	-	(26)	-	(26)
Tax on other comprehensive income	-	4	-	4
Total comprehensive income	-	(22)	3,952	3,934
Contributions and distributions				
Dividends paid to equity holders	-	-	(4,958)	(4,958)
Total contributions and distributions	-	-	(4,958)	(4,958)
Balance at 31 December 2020	90,696	(1)	7,748	98,443

The accompanying notes 1 to 34 form an integral part of these financial statements.

BCS PRIME BROKERAGE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

		31 December	31 December
(in thousands of US Dollars)	Notes	2020	2019
Cash flows from operating activities			
Profit before income tax		4,938	7,032
Adjustments for:			
Depreciation and amortisation		891	711
Net impairment losses		2,871	2,299
Net interest income		(18,818)	(19,454)
Unrealised losses (gains) on loans designated at FVTPL		308	(308)
Unrealised gains on trading and investment securities at FVTPL		(396)	-
Revaluation of derivatives		(257)	257
Net gain on sale of investment securities measured at FVOCI		(2)	(1,044)
		(10,465)	(10,507)
Changes in:			
Trading assets		(75,139)	-
Derivative assets		(2,274)	(24)
Receivables under resale agreements		(270,148)	592,699
Loans to customers		59,927	(147,010)
Other assets		(107,557)	45,888
Trading liabilities		15,540	-
Derivative liabilities		2,240	194
Payables under repurchase agreements		192,374	(591,994)
Customer accounts		65,925	23,675
Deposits and borrowings		40,760	-
Other liabilities and provisions		77,502	(13,596)
		(850)	(90,168)
Interest received		44,669	98,134
Interest paid		(26,339)	(85,441)
Income tax paid		(1,826)	(313)
Net cash generated / (used in) operating activities		5,189	(88,295)
Cash flows from investing activities			
Acquisition of investment securities		(6,370)	(707,508)
Proceeds from sale of investment securities		5,900	702,667
Acquisition of a subsidiary		-	(360)
Acquisition of property, equipment and intangible assets		(1,439)	(257)
Proceeds from liquidation of subsidiary		159	-
Net cash used in investing activities		(1,750)	(5,458)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	30,000
Dividend paid		(4,958)	-
Payment of lease liabilities		(515)	(177)
Net cash used in financing activities		(5,473)	29,823
Net (decrease) in cash and cash equivalents		(2,034)	(63,930)
Cash and cash equivalents at 1 January		56,911	121,518
Effect of exchange rate fluctuations on cash and cash equivalents		(138)	(641)
Effect of changes in allowance for credit losses on cash and cash equivalents		30	(36)
Cash and cash equivalents at 31 December (including cash held as collateral)		54,769	56,911

The accompanying notes 1 to 34 form an integral part of these financial statements.

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020.

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 2020, the Company made a profit after tax of \$3,952k (2019: \$5,610k) and had net assets of \$98,443k (31 December 2019: \$99,471k). The Company has a projection of its statement of financial position, statement of comprehensive income and statement of cash flows up until 31 December 2023. Different stress scenarios are taken into consideration in the Company's Internal Capital Adequacy Assessment Process ("ICAAP") analysis, including severe downside scenario for COVID-19, material underperformance of key business lines, and certain correction measures taken by the management.

In February 2019 the Company issued additional shares for \$30,000k, which have been fully paid by its existing shareholding company. During 2020, USD treasury bills (high quality liquid assets) continue to be used as a liquidity buffer of \$5.9m as a replacement to the previously held cash reserve, following assignation of IFPRU status. The buffer is to be used only in severe stress liquidity conditions to help the Company to meet its obligations. This reserve is revised at least annually within the firm's Internal Liquidity Adequacy Assessment ("ILAA") review.

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

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

3. Summary of significant accounting policies

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

3.1. Statement of compliance

The financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

3.2. Basis of presentation

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

During the year ended 31 December 2020 the Company has changed the method of accounting for regular way purchases and sales for equity and fixed income securities, and forex exchange spot trades. In the prior year settlement date accounting was applied, while in the current year trade date accounting is applied. There was no impact on profit or loss or equity as a result of the change. The change is a prospective change in accounting policy.

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

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

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

3.3. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item. All foreign exchange gains and losses recognised in the statement of comprehensive income are presented net in the income statement 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.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

3.4. Interest

Effective interest rate

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

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

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

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

Amortisation cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The revision of future interest payments does not significantly affect the carrying amount of the instruments.

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

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

Presentation

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

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;

BCS PRIME BROKERAGE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

- interest on debt instruments measured at fair value through other comprehensive income ('FVOCI') calculated on an effective interest basis;
- interest on loans to customers measured at fair value through profit and loss ('FVTPL') is presented separately as "other interest income. It is measured using the effective interest method, excluding transaction costs.

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

3.5. Net trading income

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

3.6. Fees and commission

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

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

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

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

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

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

3.7. Income and expenses recognition

Other than described in notes 3.4, 3.5 and 3.6 income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

3.8. Financial assets and financial liabilities

Recognition and initial measurement

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

Classification

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVOCI:

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

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

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

Business model assessment

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

- stated policies and objectives for the asset category and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the assets is evaluated and reported to the management and how employees responsible for the relevant business activity are remunerated;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except for the period after the Company changes its business model for managing financial assets. Such changes are determined by the Company's senior management as a result of external or internal changes and must be significant to the Company's operations and demonstrable to external parties. Accordingly, a change in the Company's business model will occur only when the Company's either begins or ceases to perform an activity that is significant to its operations; for example, when the Company has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Impairment of financial assets

The Company recognises impairment allowances for expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments such as loans (including securities lending and sale-and-repurchase transactions), bank balances, deposits and trade receivables (including client brokerage and margin account indebtedness) that are measured at amortised cost;
- financial assets that are debt instruments measured at FVOCI; and
- undrawn credit facilities (loan commitments).

The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. The Company accounts for ECLs, and updates the loss allowance for changes in these ECLs at each reporting date to reflect changes in credit risk since initial recognition.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

In applying the IFRS 9 impairment requirements, the Company follows one of the approaches below depending on the type of financial asset and whether the asset is purchased or originated as credit impaired:

- The general approach;
- The purchased or originated credit-impaired approach;
- The simplified approach.

Under the general approach, there are two measurement bases:

- 12-month ECLs, which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality (Stage 1);
- Lifetime ECLs, which applies when a significant increase in credit risk has occurred on an individual or collective basis (Stages 2 when a credit event has not occurred and Stage 3 when a credit event has occurred).

There are two alternatives to the general approach:

- The simplified approach, that is required for trade receivables and recognises a loss allowance based on lifetime ECLs;
- The credit-adjusted EIR approach, for purchased or originated credit-impaired financial assets, recognises a loss allowance based on the cumulative changes in lifetime ECLs since initial recognition.

Financial assets are classified as Stage 1 upon initial recognition (with the exception of purchased or originated impaired financial assets). At each reporting date, the Company assigns a financial instrument to Stage 1 as long as there is no significant deterioration in credit quality.

Essentially, the Company must make the following assessment at each reporting date:

- For credit exposures where there have not been significant increases in credit risk since initial recognition, it is required to provide for 12-month ECLs, i.e., the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (Stage 1).
- For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs, i.e., ECLs that result from all possible default events over the expected life of the financial instrument (Stages 2 and 3).

Measurement of ECL, credit-impaired assets and write-offs

Note 5 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation how the Company incorporate forward-looking information in the ECL models, credit quality assessment, credit-impaired assets (referred to as 'Stage 3 financial assets') and write-off of financial assets when there is no realistic prospect of recovery.

Presentation of loss allowance for ECL in the statement of financial position.

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments*: generally, as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

Designation at fair value through profit and loss

Financial assets are classified as designated at FVTPL at initial recognition because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

If the Company uses a credit derivative that is measured at fair value through profit or loss to manage the credit risk of all, or a part of, a financial asset (credit exposure) it may designate that financial asset to the extent that it is so managed (i.e. all or a proportion of it) as measured at fair value through profit or loss if:

- the name of the credit exposure (for example, the borrower, or the holder of a loan commitment) matches the reference entity of the credit derivative ('name matching'); and
- the seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative.

Financial liabilities are classified as designated at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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.

Offsetting

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

Hedge accounting

For the purpose of risk management the Company uses natural hedges of assets and liabilities. The Company does not apply IFRS 9 Hedge accounting.

3.9. 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').

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

3.10. Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

3.11. Loans to customers

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

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- loans to customers designated at FVTPL.

3.12. Investment securities

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

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

If insufficient information is available to determine fair value, the Company uses cost as an appropriate estimate of fair value for its equity investments. It also applies when there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

3.13. Deposits and borrowings

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.14. Derivatives

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

3.15. Collateralised securities transactions

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

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

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

3.16. Financial guarantees and loan commitments

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

3.17. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Changes in the expected useful life are accounted for by changing the depreciation period or methodology, as appropriate, and treated as changes in accounting estimates.

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

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

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

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

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

3.18. Intangible assets

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortisation of intangible assets is included in the "Administrative and other operating expenses" line item in the statement of comprehensive income.

The estimated useful lives of software is three to five years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Administrative and other operating expenses

3.19. Investments in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

3.20. Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit.

3.21. Provisions

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

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

3.22. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

3.23. Dividends

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

3.24. Customer accounts

Customer brokerage accounts are non-derivative liabilities to individuals or corporate customers and are carried at amortised cost. The Company has the full right of use of the collateralised assets without giving further notice to the clients under title transfer collateral agreement ('TTCA').

3.25. Client transactions

Client transactions are entered into on either a cash or margin basis. In margin transactions, the Company extends credit to clients for the purchase of securities, using the securities purchased and/or other securities or cash in the clients' accounts as collateral for the amounts loaned.

Receivables from and payables to clients are due on the settlement date of the security transactions. Margin loans are due on demand and are charged interest at a fixed rate.

3.26. Receivables from brokerage transactions

Receivables from brokerage transactions are funds placed with stock exchanges and financial institutions as advance payments and are receivables from clients for brokerage transactions. The Company has no intention of trading the resulting unquoted non-derivative receivable. Receivables from brokerage transactions are recorded at amortised cost.

3.27. Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present, legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

The Company does not operate a defined benefit plan.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

3.28. Corporate tax

The current income tax charge is calculated on the basis of the applicable tax law in the jurisdiction in which it is generated by the Company's activities (see note 13). It is recognised as an expense for the period except to the extent that such current tax is charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity. Where the Company has tax losses that can be relieved against a tax liability for a previous period, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against any existing current tax balance. Where tax losses can be relieved only by being carried forward and applied against taxable profits of future periods, a deductible temporary difference arises. Those losses, where considered appropriate to recognise, are carried forward and set off against deferred tax liabilities carried in the statement of financial position. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively 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.

3.29. Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

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

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

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

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

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

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

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

The Company presents lease liabilities in "Other liabilities" and right-of-use asset in "Property and equipment" in the statement of financial position.

3.30. Fair value management

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 at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. An active market for this purpose means market where transactions take place with sufficient volumes and frequency to act as a source of pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value reporting

The Company has a control framework with respect to the measurement of fair values. This framework includes a separate department, which is independent of front office, and which has overall responsibility for verification of the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- a review and approval process for new models and changes to models
- quarterly calibration and back testing of models against observed market transactions.

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

a) Equity and debt securities

Common and preferred shares, American depositary receipts ("ADR"), global depositary receipts ("GDR") and exchange traded funds ("ETFs") traded in active markets are valued using dealer price quotations or exchange prices recorded on the security exchange on which the security is principally traded.

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

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

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

b) *Loans and other receivables*

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

c) *Listed Derivative Contracts*

Listed derivative contracts that are actively traded are measured based on quoted exchange prices or broker quotes. Exchange quotes are generally obtained from external vendors and pricing services. Broker quotes are validated directly through observable and tradeable quotes. The Company manages interests in actively traded, equity exchange futures.

d) *Over-the-Counter ('OTC') Derivative Contracts*

OTC derivative contracts are generally valued using models, whose inputs reflect assumptions that the Company believes market participants would use in valuing the derivative in a current transaction. Where available, valuation inputs are calibrated from observable market data. Such OTC derivatives' value are continuously calibrated through the variation margin assessment regime with the Company's counterparties.

Discounting has been applied to the Company's derivative transactions conducted under agreements which provide for collateralisation of credit exposures, taking account of factors such as margin thresholds and the currency of collateral provided.

i. *Credit default swaps*

The fair value of credit default swaps is estimated based on quoted market prices or pricing models that take into accounts the current market and contractual prices of the underlying instruments, credit spreads, recovery rates and other factors. To the extent that credit spreads are unobservable, these are determined with reference to recent transactions or proxy spreads from relevant debt securities or derivatives.

ii. *Equity Swaps*

The fair value of OTC equity swaps is measured using an industry standard and proprietary valuation model whose key inputs including the underlying stock, ADR, GDR, warrant or index future price and the interest rate curve.

iii. *Forex Swaps*

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

3.31. New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted. The Company has not early adopted the new and amended standards in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies (continued)

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

4. Critical accounting estimates and judgements

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Judgments

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – note 3.
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – note 5.
- calculation of transfer pricing adjustment, application of transfer pricing policy, which serves to implement the arm's length principle when dealing with other companies of the BCS Group – note 31.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the period ended 31 December 2020 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – note 5.
- estimates of fair values of financial assets and liabilities – note 6.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. Financial risk management

Financial risks are risks arising from financial instruments to which the Company is exposed during or at the end of the reporting period. Financial risk comprises market risk (including interest rate risk and currency), credit risk, liquidity risk and, for the purposes of these financial statements, operational risk.

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

Risk Management Framework

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

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

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

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

The Risk Management Department is responsible for reviewing and monitoring risk exposures and leading the continued development of risk management policies and practices, in order to monitor adherence to the Board's risk appetite.

All risk types are identified as part of the ICAAP and articulated in the Company's risk appetite statement. To this end, the Company has established and implemented the following suite of core risk management policies that are approved at least annually by the Board Risk Committee:

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

Market risk

The Company has a proprietary trading licence, and as at 31 December 2020 held a portfolio of proprietary positions.

Market risk is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. Changes in the value of trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. Financial risk management (continued)

The Company may incur market risk arising from the following sources:

- Proprietary trading positions;
- Cash balances held in currencies other than USD (functional currency of the Company);
- Collateral held as part of client margin trading and repo business (contingent market risk if a client or counterparty defaults);
- Client position concentrations (contingent market risk if a client or counterparty defaults);
- Contingent market risk upon the default of a trading client or counterparty;
- Interest rate risk on the following;
 - repurchase agreements;
 - debt investment securities – US Treasuries;
 - loans provided to customers.

Equity price risk

The following is a summary of the VaR position of the Company's equity trading portfolios at 31 December and during the period (based on a 99% confidence level and 1-day horizon).

	Year ended 31 December 2020	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2019
(in thousands of US Dollars)	Carrying amount	VaR 1D 99%	Carrying amount	VaR 1D 99%
Equity instruments (net position)	59,599	81	-	-
	59,599	81	-	-

Interest rate risk

Interest rate risk is the risk that the Company's income on financial instrument portfolio may change due to interest rate fluctuations. The company has minimal interest rate risk. Exposure is limited to the following:

- Portfolio of US Government bonds held as High Quality Liquid Assets, per the Company's Internal Liquidity Adequacy Assessment;
- Loans provided to external borrowers (however interest rate risk is typically offset by corresponding intercompany arrangements);
- Mismatched fixed versus floating rates on the firm's repo book.

Interest rate risk management through monitoring of the mismatch of the maturities of interest bearing assets and interest bearing liabilities is supplemented by performing DV01 calculations on a daily basis versus a pre-defined limit, and PV01 calculations on a monthly basis.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. Financial risk management (continued)

(in thousands of US Dollars)	Carrying amount	DV01 (net)	PV01 (net)
Year ended 31 December 2020			
Repurchase agreements (net balance)	146,918	0.01	
Investment securities - government bonds	5,931	0.29	
Loans and borrowings (net position)	70,565		4.7
	223,414	0.30	4.7
Year ended 31 December 2019			
Repurchase agreements (net balance)	69,057	-	
Investment securities - government bonds	5,914	0.27	
Loans and borrowings (net position)	170,844		N/D
	245,815	0.27	

Foreign currency risk

Foreign currency risk arises from income received in non-USD currencies from its brokerage activities, as well as expenses incurred in running the business.

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.

The following is a summary of the VaR position of the Company's non-USD exposure at 31 December and during the period (based on a 99% confidence level and 1-day horizon).

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
TOTAL FX VaR 1D 99%	122	10

Credit risk

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. Specifically, the Company incurs credit risk when placing cash or securities with custodians or brokers, conducting trades on an execution-only basis with other market participants, conducting collateralised repo trades, providing loans and providing margin leverage services to clients. These activities are identified, controlled and monitored within the risk management framework. Counterparty credit assessments are performed prior to approving limits. Where the Company provides a loan, or a credit limit to a client which involves physically transferring assets to a third party, these must be pre-approved by the Risk Committee. Exposures are monitored and reported daily.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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5. Financial risk management (continued)

The Company seeks to control the risks associated with margin trading activities by requiring each trade to be carried out in accordance with margin policies. Unless a credit limit is specifically approved, each customer is required to have minimum funds in their account for opening positions, and for maintaining positions. The system automatically monitors each customer's margin requirements in real time, and confirms that every customer has sufficient funds in their account before trades are executed. If at any point in time a customer's trading position does not comply with the applicable margin requirement, the position can be partially or entirely liquidated in accordance with the margin policies and procedures. The Company adjusts its margin requirements if it believes its risk exposure is not appropriate based on market conditions. For collateralised securities transactions involving repurchase and resale agreements the Company is permitted to sell or repledge the securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover any short positions.

The Company is subject to concentration risk if it extends large loans to or has large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry). Management seeks to limit this risk through careful review of the underlying business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

The company automatically monitors compliance with limits on each margin client. Where customers conduct transactions over-the-counter, manual controls are in place. The Company uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis. At the transaction level, an assessment of a borrower's ability to service the proposed level of debt is performed.

Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques.

At the portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity limits, (iv) geographical concentration limit.

The analysis by credit quality of financial assets is mainly based on Standard and Poor's rating and other ratings converted to the nearest equivalent to the Standard and Poor's rating scale. Pursuant to the policy on limits, the exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations. The Company maintains a Credit Risk Policy in order to adhere to the Board's credit risk appetite, assigning authority to decide on risk taking issues to committees, and granting specific approval of large or unusual transactions.

The policy below represents information about the Company's inputs, assumptions and techniques used for estimating impairment.

Expected credit losses (ECL) – general approach

The Company has a methodology for determining impairment and calculating of expected credit loss (ECLs) of financial instruments under IFRS 9.

When measuring ECLs the Company takes into account:

- the probability-weighted outcome;
- the time value of money so that ECLs are discounted to the reporting date;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions and that is relevant to the estimate of ECLs, including the effect of expected prepayments.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. Financial risk management (continued)

The Company uses the following information:

- credit loss historical data received by the Company from its own activities;
- credit loss experience received by another financial institutions or credit rating agencies;
- internal and external credit ratings;
- other statistical data and information.

Data sources are reviewed at least annually to avoid a gap emerging between estimated ECLs and actual credit losses.

The Company can carry out two separate approaches to ECL measurement:

- assessment on individual basis;
- assessment on a collective basis.

The Company assesses ECLs on a collective basis if the Company does not have reasonable and supportable information that is available without undue cost or effort to measure ECLs on an individual instrument basis. The objective is to approximate the result of using comprehensive credit information that incorporates forward-looking information at an individual instrument level.

Measurement of ECL – general approach

General approach ECL - Stage 1

For Stage 1, the Company applies 12-month ECLs measured on an individual or collective basis as per the following formula:

$$12M\ ECLs = EAD \times LGD \times PD \times \begin{cases} 1 & \text{for onbalance instruments} \\ CCF & \text{for offbalance instruments} \end{cases}$$

Where:

Values of *EAD* defined as the following:

Financial instrument	EAD (Exposure at default)
Loans, debt securities, cash balances	Gross carrying amount of a financial asset
Repurchase agreements	Cash that are due to the Company (including interest revenue)
Loan commitments	Undrawn part of the loan

LGD – Loss given default, which is the estimated percentage of the exposure that will be lost by the Company following a default event. *LGD* can be determined on a collective basis for financial assets, which possess shared credit risk characteristics, or on an individual basis. When determining *LGD* a collateral shall be taking into account.

CCF – Credit conversion factor. *CCF* converts the amount of undrawn credit lines or other off-balance-sheet transactions to an exposure at default amount. *CCF* is estimated by the Company basing on its own statistic and requires the use of judgement.

PD_{1Y}^{PIT} – Probability of default of a counterparty at any point during year 1. That displays available historical default rates adjusted for current macroeconomic conditions: $PD_{1Y}^{PIT} = PD_{1Y}^{TTC} \times MF$. The Company measures *PD* of a counterparty basing on historical default rates reported by S&P for a given credit rating.

MF – Macro-factor used for adjustment of *PD* to take into account current macroeconomic conditions.

t – Period from the reporting date to the maturity date of the financial instrument or 2 weeks, whichever the higher. The period *t* is expressed in years.

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NOTES TO THE FINANCIAL STATEMENTS

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5. Financial risk management (continued)

General approach ECL - Stage 2

For Stage 2, the Company applies lifetime ECLs measured on an individual or collective basis as per the following formula:

$$\text{Lifetime ECLs} = \sum_{t=1}^N \frac{CF_t \times PD_{t_i}}{(1 + EIR)^{t_i}} \times LGD \times \begin{cases} 1 & \text{for onbalance instruments} \\ CCF & \text{for offbalance instruments} \end{cases}$$

Where:

Values of CF_t defined as the following:

Financial instrument	CF_t
Loans, debt securities	The contractual cash flows that are due to the Company (including interest revenue)
Cash balances, trade receivables	The outstanding balance
Repurchase agreements	The contractual cash flows that are due to the Company (including interest revenue)
Loan commitments	The contractual cash flows that are due to the Company if the holder of the loan commitment draws down the loan

LGD – Loss given default.

CCF – Credit conversion factor.

PD_{1Y}^{PIT} – Probability of default of a counterparty (borrower, issuer or debtor) at any point during 1 year displaying available historical default rates adjusted for current macroeconomic conditions: $PD_{1Y}^{PIT} = PD_{1Y}^{TTC} \times MF$.

PD_t^{TCC} – Cumulative probability of default of a counterparty at any point until the end of year t . That displays available historical average default rates for the last economic cycle.

MF – Macro-factor used for PD adjustment to take into account current macroeconomic conditions.

EIR – Effective interest rate. However, for bank balances or trade receivables the $EIR = 0$.

t_i – Period from the reporting date to the date of cash flow i or 2 weeks, whichever the higher. The period t is expressed in years.

N – The expected number of contractual payments of the financial instrument.

General approach ECL - Stage 3

For Stage 3 the Company applies lifetime ECLs measured on an individual or collective basis.

If a financial asset is in default during period bigger than recovery term presented above, the loss allowance for such asset is recognized as 100% of its value.

Lifetime ECLs on an individual basis is measured by the following formula:

$$\text{Lifetime ECLs} = \sum_j^M (\text{Lifetime ECLs}_j \times w_j)$$

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5. Financial risk management (continued)

Where:

LifetimeECLs_j – ECLs under scenario *j* measured in the same way as ECLs measured for Stage 2 subject to PD = 100%;

w_j – Probability of scenario *j* determined with respect to contractual terms, current conditions and forecasts of future economic conditions. Meanwhile the following condition shall be met: $\sum_j^M w_j = 100\%$.

Lifetime ECLs on a collective basis is measured by the following formula:

$$LifetimeECLs = EAD \times LGD$$

Where:

EAD – Exposure at default as presented above in this section.

LGD – Loss given default.

Measurement of ECL – simplified approach

The simplified approach does not require the Company to track the changes in credit risk, but, instead, requires the Company to recognise a loss allowance based on lifetime ECLs at each reporting date, right from origination.

The Company applies the simplified approach when measuring ECLs for the following financial assets:

- client brokerage/margin account indebtedness;
- trade receivables;
- other immaterial financial assets.

Determining whether credit risk has increased significantly

Financial instruments shall be transferred from Stage 1 to Stage 2 if there have been significant increases in credit risk since initial recognition.

At each reporting date, the Company must make an assessment whether there has been a significant increase in credit risk. The assessment is based on the following non-exhaustive list of factors and indicators:

- Past due information (the past due rebuttable presumption), including:
 - 31-90 days past due event (applicable for any financial asset except securities or an asset in respect of a financial institution);
 - 1-2 days past due event (applicable for securities or an asset in respect of a financial institution).
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.
- An actual or expected significant change in the operating results of the borrower.
- Significant changes, such as reductions, in the quality of the guarantee provided by a shareholder or in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.
- Expected changes in the loan documentation (i.e., changes in contract terms) including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.
- An actual significant change in the financial instrument's external or internal credit rating.

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5. Financial risk management (continued)

Event of default

Financial assets shall be transferred from Stage 1 or Stage 2 to Stage 3 if an event of default is occurred. These assets are considered as the credit-impaired assets.

Event of default is occurred when one or more events from the list presented below have occurred:

- a breach of contract, such as a past due event, during the following period:
 - more than 90 days (applicable for any financial asset except securities or an asset in respect of a financial institution);
 - more than 2 days (applicable for securities or an asset in respect of a financial institution);
- internal credit rating D is assigned to the financial assets;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider (debt restructuring);
- the borrower applies for debt redemption through non-cash assets (except the cases where such redemption is in line with the initial agreement);
- the borrower enters bankruptcy or other financial reorganization;
- the borrower enters into a liquidation procedure;
- the borrower refuses in written form to pay a contractual payment;
- the borrower is included in the list of designated persons linked to terrorism, terrorist financing or proliferation of weapons of mass destruction;
- revocation of financial service license (applicable for financial institutions);
- other events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Improvement criteria

Financial assets shall be transferred from Stage 3 to Stage 2 if all the following conditions are met:

- the default event is completed;
- the borrower has made at least 3 consequent contractual payments (applicable for retail clients);
- the borrower has made consequent contractual payments during at least 6 month period (applicable for other clients).
- financial assets shall be transferred from Stage 3 or Stage 2 to Stage 1 if all the following conditions are met:
 - the default event is completed;
 - there is no longer a significant increase in credit risk since initial recognition;
 - the borrower has made at least 6 consequent contractual payments (applicable for retail clients);
 - the borrower has made consequent contractual payments during at least 12 month period (applicable for other clients).

Write off

When a financial asset is uncollectable, it is written off against the related allowance for loan impairment. The Company writes off an asset balance (and any related allowances for asset losses) when management determines that the asset is uncollectable and when all necessary steps to collect the asset is completed.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

BCS PRIME BROKERAGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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5. Financial risk management (continued)

Incorporating of forward-looking information

The Company measures ECLs using historical information. However, adjustments can be made to estimate ECLs in respect of reasonable and supportable information that incorporates both current and forward-looking information:

- in most cases, adjustments would be needed to incorporate the effects that were not present in the past or to remove the effects that are not relevant for the future;
- in some cases, unadjusted historical information may be the best estimate, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered.

The adjustments can be made on an individual or collective basis.

When considering how, and to what extent, historical credit losses should be adjusted, the Company considers various items, including:

- the period of time over which its historical data has been captured and the corresponding economic conditions represented in that history. The historical data period may reflect unusually benign or harsh conditions unless it is long enough, while products, customers and lending behaviours all change over time;
- significant changes in the loss allowance relatively to the Company's portfolio;
- changes in the lending practices and monitoring process of the Company, which can have an impact on the risk of a default occurring;
- whether the historical data captures a specific economic cycle and whether that cycle represents the current conditions and forecast of future economic conditions.

All adjustments are subject to a management approval and clear documentation.

Back testing

In order to reduce the differences between the Company's estimates and actual credit loss experience, the estimates of ECLs should be back-tested and re-calibrated, i.e., the Company regularly reviews its inputs, assumptions, methodology and estimation techniques used.

In addition, when using historical credit loss experience, it is important that information about historical credit losses is applied to groups that are defined in a manner that is consistent with the groups for which the historical credit losses were observed.

The ultimate goal of back-testing is the following:

- comparing a loss allowance recognised for financial assets of Stage 1 at the beginning of the year with a loss allowance for financial assets transferred from Stage 1 to Stage 2 or Stage 3 during the year.
- comparing a loss allowance recognised for financial assets of Stage 2 at the beginning of the year with a loss allowance for financial assets that remained in Stage 2 or transferred from Stage 2 to Stage 3 during the year.

The Company reaches a conclusion regarding the accuracy of the ECL model after comparing the results. The Company may adjust its models if back-testing reveals a material gap in the model versus actual credit losses.

Loss allowance

Reconciliation of the loss allowance from the opening to the closing balances by class of financial instruments are presented in notes 14- 15, 20-23 and 30.

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.

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5. Financial risk management (continued)

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

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

Set out below is the table showing the contractual maturities of assets and liabilities as at 31 December 2020. Repayments, which are subject to notice are treated as if notice were to be given on the earliest possible date (e.g. unencumbered client collateral). However, the Company expects that many clients will not request repayment on the earliest possible date the Company could be required to pay.

(in thousands of US Dollars)	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years
Cash and cash equivalents	54,769	54,769	54,769	-	-	-	-
Reverse repurchase agreements	424,944	424,364	356,852	-	67,512	-	-
Trading assets except derivatives	75,139	75,139	-	-	-	-	75,139
Derivative assets	2,318	2,318	4	-	-	2,314	-
Investment securities	6,694	6,694	-	-	5,931	-	763
Loans to customers	111,325	112,648	20,157	5,193	61,930	25,368	-
Other assets	122,489	122,651	111,973	9,271	1,189	218	-
Total assets	797,678	798,583	543,755	14,464	136,562	27,900	75,902
Customer accounts	258,541	(258,541)	(258,541)	-	-	-	-
Repurchase agreements	278,026	(278,026)	(210,518)	(67,508)	-	-	-
Trading liabilities except derivatives	15,540	(15,540)	-	-	-	-	(15,540)
Derivative liabilities	2,820	(2,820)	(42)	-	-	(2,778)	-
Deposits and borrowings	40,760	(40,761)	(10)	(64)	(15,022)	(25,665)	-
Lease liabilities	1,651	(1,733)	-	(187)	(561)	(985)	-
Other liabilities	104,154	(104,154)	(96,157)	(1,901)	(6,096)	-	-
Loan commitments	-	(7,000)	(7,000)	-	-	-	-
Total liabilities	701,492	(708,575)	(572,268)	(69,660)	(21,679)	(29,428)	(15,540)
Net liquidity surplus/(deficit)	96,186	90,008	(28,513)	(55,196)	114,883	(1,528)	60,362

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5. Financial risk management (continued)

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

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

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

Operational risk

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

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

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

Reputational risk is 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 weekly Executive Committee and takes it into consideration in its ICAAP scenario analysis and calculations.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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. Capital risk management is, to a large extent, a function of other risk types.

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

6. Fair values of financial instruments

The table below analyses financial instruments measured at fair value at 31 December 2020 and 31 December 2019, by the level in the fair value hierarchy into which the fair value is categorised. The amounts are based on the values recognised in the statement of financial position. It is highlighted that there are no transfers between levels from one year to the other.

(in thousands of US Dollars)	31 December 2020				31 December 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Trading assets except derivatives	75,139	-	-	75,139	-	-	-	-
Derivative assets	-	2,318	-	2,318	-	44	-	44
Investment securities	5,931	763	-	6,694	5,914	198	-	6,112
Loans to customers at FVTPL	-	-	-	-	-	50,323	-	50,323
Total financial assets at fair value	81,070	3,081	-	84,151	5,914	50,565	-	56,479
Financial liabilities at fair value								
Trading liabilities except derivatives	15,540	-	-	15,540	-	-	-	-
Derivative liabilities	-	2,820	-	2,820	-	323	-	323
Total financial liabilities	15,540	2,820	-	18,360	-	323	-	323

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6. Fair values of financial instruments (continued)

The table below analyses financial instruments not measured at fair value at 31 December 2020 and 31 December 2019, by the level in the fair value hierarchy into which the fair value is categorised. It is highlighted that there are no transfers between levels from one year to the other.

(in thousands of US Dollars)	31 December 2020		31 December 2019	
	Total fair value	Total carrying amount	Total fair value	Total carrying amount
Financial assets				
Cash and cash equivalents	54,769	54,769	56,911	56,911
Reverse repurchase agreements	424,944	424,944	154,797	154,797
Loans to customers	112,330	111,325	120,521	123,365
Other assets	122,489	122,489	14,948	14,948
Total financial assets at amortised cost	714,532	713,527	347,177	350,021
Financial liabilities				
Customer accounts	258,541	258,541	192,616	192,616
Deposits and borrowings	40,760	40,760	-	-
Repurchase agreement liabilities	278,026	278,026	85,740	85,740
Other liabilities	105,805	105,805	27,443	27,443
Total financial liabilities at amortized cost	683,132	683,132	305,799	305,799

7. Fee and commission income and expenses

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income		
Brokerage commissions	15,453	14,904
Reimbursed fees	28,379	22,995
Introductory fees	8,933	11,250
Outsourcing fees	7,883	6,290
Arrangements fees	1,350	969
Other commission income	5,028	2,317
Total fee and commission income	67,026	58,725
Fee and commission expense		
Stock exchanges services	(18,724)	(18,096)
Other brokerage expenses	(18,834)	(14,509)
Loan facilitation fees	-	(682)
Other	(4,657)	(3,602)
Total fee and commission expense	(42,215)	(36,889)
	24,811	21,836

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8. Net interest income

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Interest income calculated using the effective interest method		
Resale and securities lending agreements	29,425	86,603
Interest received from clients	5,937	6,314
Terms loans	7,408	4,850
Current accounts with banks	169	525
Investment securities	77	35
Total interest income calculated using the effective interest method	43,016	98,327
Other interest income/expense		
Financial assets measured at FVTPL	2,229	1,101
Derivatives	(2,284)	(1,144)
Total other interest income/expense	(55)	(43)
Interest expense		
Repurchase and securities borrowing agreements	(17,978)	(73,558)
Current accounts	(5,509)	(5,222)
Deposits and borrowings	(601)	-
Lease liability	(44)	(50)
Other	(11)	-
Total interest expense	(24,143)	(78,830)
	18,818	19,454

9. Net trading income

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Fixed income	4,230	-
Equities	608	-
Derivatives	582	(21)
	5,420	(21)

In the first half of 2019 the Company sold previously pledged bonds as a result of default of a REPO counterparty (see note 19) resulting in a net realised gain of \$4,167k.

10. Net gain on sale of debt securities measured at FVOCI

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

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FOR THE YEAR ENDED 31 DECEMBER 2020

11. Net income from other financial instruments at FVTPL

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Net income from financial instruments mandatorily measured at FVTPL other than those included in 'net trading income'		
Funds	-	(1,672)
Derivatives held for risk management	(640)	(465)
Equity securities	198	-
Net income from financial instruments designated as at FVTPL		
Loans and advances	(308)	308
	(750)	(1,829)

12. Administrative and other operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Staff costs	(28,161)	(21,667)
IT expenses	(5,476)	(4,761)
Professional Fees	(1,853)	(1,637)
Depreciation and amortisation	(891)	(711)
Occupancy expenses	(755)	(506)
Travel, representation and advertising expenses	(417)	(894)
Other administrative expenses	(1,653)	(1,318)
	(39,206)	(31,494)

Staff costs, including directors' remuneration, were as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Wages and salaries	(23,546)	(18,208)
Social security contributions	(4,030)	(3,056)
Contribution to defined contribution plans	(163)	(142)
Other staff costs	(422)	(261)
	(28,161)	(21,667)

Outstanding pension contributions at the year-end are disclosed in note 28.

Audit fees recognised in the statement of comprehensive income for the year ended 31 December 2020 were \$208k (31 December 2019: \$208k). Audit fees included CASS assurance services of \$10k (31 December 2019: \$10k)

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12. Administrative and other operating expenses (continued)

The average number of employees including the Moscow and Cyprus branches, during the year was as follows:

	2020	2019
London	44	41
Moscow	262	229
Cyprus	1	1
Average number of employees	307	271

13. Income taxes

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

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of shares)		
Current tax		
Current year income tax charge	(528)	(1,232)
Adjustments in respect of prior periods	(293)	(184)
Foreign tax relief	15	68
Foreign tax suffered	(139)	(136)
Foreign exchange differences	-	(33)
	(945)	(1,517)
Deferred tax		
Origination and reversal of temporary differences	(368)	(219)
Effect of changes in tax rates	43	23
Adjustment in respect of prior periods	284	291
	(41)	95
Income tax expense for the year	(986)	(1,422)
Other comprehensive income items		
Deferred tax expense	5	(4)

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 19.00% (31 December 2019: 19.00%). The differences are explained below:

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13. Income taxes (continued)

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of shares)		
Current tax reconciliation		
Profit before corporation tax	4,938	7,032
Theoretical tax charge at statutory rate of 19.00% (31 December 2019: 19.00%)	(938)	(1,336)
Effects of:		
Expenses not deductible for tax purposes	(17)	(112)
Adjustment in respect of prior years	(9)	107
Tax rate changes	43	23
Effect of overseas tax rates	(65)	(71)
Foreign exchange differences	-	(33)
Income tax expense for the year	(986)	(1,422)

Factors affecting future tax charge

On 3 March 2021 it was announced that the UK corporation tax rate would increase from 19% to 25% from 1 April 2023. The deferred tax balances have been calculated with reference to the rate of 25%, as required under IFRS. However, following the substantive enactment of the rate of 25%, it is anticipated that the reversal of temporary differences will occur at this rate and that the maximum impact on the quantum of the deferred tax asset recognised will be \$16k.

14. Cash and cash equivalents

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Settlement and correspondent accounts with banks and clearing houses	35,618	47,562
Amounts on brokerage accounts	19,162	9,390
Loss allowance	(11)	(41)
Total cash and cash equivalents	54,769	56,911

The following table sets out information about the credit quality of cash and cash equivalents as at 31 December 2020 and as at 31 December 2019. The amounts in the table represent gross carrying amounts.

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14. Cash and cash equivalents (continued)

(in thousands of US Dollars)		31 December 2020	
	Settlement and correspondent accounts with banks and clearing houses	Amounts on brokerage accounts	Total
A- to A+	11,951	-	11,951
AA- to AA+	21,245	-	21,245
BBB- to BBB+	1,731	19,162	20,893
B- to B+	691	-	691
Loss allowance	(3)	(8)	(11)
Total cash and cash equivalents	35,615	19,154	54,769

(in thousands of US Dollars)		31 December 2019	
	Settlement and correspondent accounts with banks and clearing houses	Amounts on brokerage accounts	Total
A- to A+	5,963	-	5,963
AA- to AA+	34,462	-	34,462
BBB- to BBB+	7,052	-	7,052
BB- to BB+	-	1,686	1,686
B- to B+	85	7,704	7,789
Loss allowance	(11)	(30)	(41)
Total cash and cash equivalents	47,551	9,360	56,911

Movement in the loss allowance during the year ended 31 December 2020 and 31 December 2019 were as follows:

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Loss allowance at 1 January	(41)	(5)
Charge (reverse) of loss allowance	30	(36)
Loss allowance at 31 December	(11)	(41)

15. Transfer of financial assets

The Company has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Company receives cash in exchange. These financial assets may be pledged or resold by counterparties in the absence of default by the Company, but the counterparty has an obligation to return the securities at the maturity of the contract. The Company has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Company recognises a financial liability for cash received as collateral included in payables under repurchase agreements.

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NOTES TO THE FINANCIAL STATEMENTS

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15. Transfer of financial assets (continued)

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Company acts as intermediary.

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Reverse REPO		
Funding provided	424,944	154,797
Collateral received	494,290	166,566
Direct REPO		
Funding received	278,026	85,740
Collateral provided	391,185	139,320

Collateral received and provided are reported based on market prices of the securities at the end of 2020 and 2019 respectively.

The following table sets out information about the credit quality of the receivables under resale agreements:

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
A- to A+	26,498	65,554
AA- to AA+	-	1,401
BBB- to BBB+	324,521	3,481
BB- to BB+	-	12,355
B- to B+	2,619	46,441
Rated below B-	3,755	25,639
Unrated	67,573	166
Total gross amount	424,966	155,037
Loss allowance	(22)	(240)
Total carrying amount	424,944	154,797

Movements in the loss allowance for the receivables under resale agreements during the year ended 31 December 2020 and 31 December 2019 are as follows:

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Loss allowance at 1 January	(240)	(906)
Release of loss allowance - Stage 1	218	666
Charge of loss allowance - Stage 3	(3,558)	-
Total ECL charge	(3,340)	666
Write-off	3,558	-
Loss allowance at 31 December	(22)	(240)

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15. Transfer of financial assets (continued)

Stage 3 ECL allowance for the year ended 31 December 2020 (31 December 2018: \$nil) related to a single credit event that happened in the first quarter of 2020. The full amount had been recovered via the sale of pledged securities (see note 9). Following the management's decision that the Company would not be taking legal action against the client, the position was written down from the balance sheet.

16. Trading assets and liabilities except derivatives

	2020			2019		
(in thousands of US Dollars)	pledged	unpledged	Total	pledged	unpledged	Total
Financial Assets						
Corporate shares	7,891	64,473	72,364	-	-	-
Units in mutual funds	-	2,775	2,775	-	-	-
Total trading assets	7,891	67,248	75,139	-	-	-
Financial liabilities						
Corporate equity instruments	1,422	14,118	15,540	-	-	-
Total trading liabilities	1,422	14,118	15,540	-	-	-

Trading assets are represented by shares of large international companies and units in mutual funds. These instruments are held for trading purposes.

Trading liabilities at fair value through profit or loss represent liabilities for short sale transactions.

17. Derivatives

	Year ended 31 December 2020	Year ended 31 December 2019
Derivative financial instruments - assets		
(in thousands of US Dollars)		
Equity swaps	2,314	-
Forex swaps	4	44
Credit default swaps	-	-
Total derivative financial instruments - assets	2,318	44
Derivative financial instruments - liabilities		
(in thousands of US Dollars)		
Equity swaps	2,778	4
Forex swaps	42	62
Credit default swaps	-	257
Total derivative financial instruments - liabilities	2,820	323

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18. Investment securities

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Debt investment securities measured at FVOCI		
Government bonds, rating - AAA	5,931	5,914
Equity securities mandatorily measured at FVTPL		
Corporate shares	763	198
Total investment securities	6,694	6,112

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

19. Investment in subsidiary

On 8 February 2019 the Company purchased an Australian non-regulated entity and intellectual property. During the year the Company made a decision to liquidate the subsidiary. As at 31 December 2019 the investment was stated at its recoverable amount of \$159k, which was received by the Company in the beginning of 2021.

Impairment losses recorded in 2019 on this transaction included a loss of \$471k on the cost of investment and \$1,163k on related intellectual property ('Impairment losses on other assets' caption in the statement of comprehensive income).

20. Loans to customers

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Loans to customers at amortised cost	112,648	122,276
Less impairment loss allowance	(1,323)	(1,755)
	111,325	120,521
Loans to customers at FVTPL	-	50,323
Total loans to customers	111,325	170,844

In 2019 one of the loans was designated at FVTPL because the Company used a credit derivative to manage the credit risk of the financial asset. The loan was fully repaid in 2020.

Loans to customers at amortised cost

	2020			2019		
(in thousands of US Dollars)	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Term loans	85,544	(159)	85,385	95,663	(737)	94,926
Margin loans	22,073	(1)	22,072	21,582	(108)	21,474
Subordinated loan	5,031	(1,163)	3,868	5,031	(910)	4,121
Total loans to customers	112,648	(1,323)	111,325	122,276	(1,755)	120,521

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20. Loans to customers (continued)

Analysis by credit quality of loans to customers measured at amortised cost outstanding as at 31 December 2020 and 31 December 2019 is as follows:

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
BBB- to BBB+	9,964	-
BB- to BB+	32,578	18,082
B- to B+	63,073	62,268
Rated below B-	-	5,031
Unrated	7,033	36,895
Total	112,648	122,276
Loss allowance	(1,323)	(1,755)
Total loans to customers	111,325	120,521

Movements in the loss allowance for the loans to customers during the year ended 31 December 2020 and 31 December 2019 are as follows:

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Loss allowance at 1 January	(1,755)	(156)
Reversal (charge) of loss allowance	432	(1,599)
Loss allowance at 31 December	(1,323)	(1,755)

There has been no evidence of significant deterioration of credit quality of the loans since their inception.

The subordinated loan provided in 2018 remains in Stage 1 as of 31 December 2020.

21. Other assets

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Amounts due from related parties	9,161	1,918
Customer overdrafts	17,899	2,869
Prepayments	1,189	958
VAT receivable	110	-
Other	2,226	1,476
Loss allowance	(86)	(34)
Total other assets	30,499	7,187

Other assets includes a rent deposit of \$218k (31 December 2019: \$211k).

See note 31 for details of amounts held with related parties.

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21. Other assets (continued)

Analysis by credit quality of other financial assets as at 31 December 2020 and 31 December 2019 is as follows:

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
A- to A+	339	534
AA- to AA+	304	126
BBB- to BBB+	10,080	151
BB- to BB+	9,399	39
B- to B+	948	2,220
Rated below B-	-	1,257
Unrated	7,870	1,740
Loss allowance	(86)	(34)
Total other financial assets at amortised cost	28,854	6,033
Total other non-financial assets	1,645	1,154
Total other assets	30,499	7,187

Movements in the loss allowance for the other assets during the year ended 31 December 2020 and 31 December 2019 are as follows:

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Unsettled trades balances	(34)	(61)
Loss (reversal) of loss allowance	(52)	27
Total loss allowance	(86)	(34)

22. Settlement balances

(in thousands of US Dollars)	Year ended 31 December 2020	Year ended 31 December 2019
Trading receivables	92,066	7,829
Loss allowance	(76)	(68)
Total settlement balances - assets	91,990	7,761
Total settlement balances - liabilities	91,766	5,385

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22. Settlement balances (continued)

Analysis by credit quality of trading receivables as at 31 December 2020 and 31 December 2019 is as follows:

<i>(in thousands of US Dollars)</i>	Year ended 31 December 2020	Year ended 31 December 2019
A- to A+	24,553	2,046
AA- to AA+	10,668	2,548
BBB- to BBB+	51,629	71
BB- to BB+	304	2
B- to B+	4,649	1,732
Rated below B-	223	122
Unrated	40	1,308
Total	92,066	7,829
Loss allowance	(76)	(68)
Total settlement balances	91,990	7,761

Movements in the loss allowance for the settlement balances during the year ended 31 December 2020 and 31 December 2019 are as follows:

<i>(in thousands of US Dollars)</i>	Year ended 31 December 2020	Year ended 31 December 2019
Loss allowance at 1 January	(68)	(5)
Charge of loss allowance	(8)	(63)
Loss allowance at 31 December	(76)	(68)

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23. Property and equipment

(in thousands of US Dollars)	Computer and office equipment	Furniture and fixtures	Leasehold improvements	Right-of- use asset	Total
Cost					
Balance at 1 January 2019	1,533	194	806	1,339	3,872
Additions	213	1	-	-	214
Disposals	(27)	-	-	-	(27)
Balance at 31 December 2019	1,719	195	806	1,339	4,059
Balance at 1 January 2020	1,719	195	806	1,339	4,059
Additions	561	-	-	878	1,439
Disposals	(54)	-	-	-	(54)
Balance at 31 December 2020	2,226	195	806	2,217	5,444
Depreciation and amortisation					
Balance at 1 January 2019	1,140	64	311	-	1,515
Charge for the year	251	37	113	303	704
Disposals	(27)	-	-	-	(27)
Balance at 31 December 2019	1,364	101	424	303	2,192
Charge for the year	302	37	113	425	877
Disposals	(3)	-	-	-	(3)
Balance at 31 December 2020	1,663	138	537	728	3,066
Carrying amounts					
Balance at 31 December 2019	355	94	382	1,036	1,867
Balance at 31 December 2020	563	57	269	1,489	2,378

During the years ended 31 December 2020 and 31 December 2019, there were no transfers from property and equipment to right-of-use assets.

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24. Intangible assets

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Cost		
Opening Balance at 1 January	245	203
Additions	-	43
Disposals	-	(1)
Closing Balance as at 31 December	245	245
Depreciation and amortisation		
Opening Balance at 1 January	209	203
Charge for the year	14	7
Disposals	-	(1)
Closing Balance as at 31 December	223	209
Carrying amounts		
Closing Balance as at 31 December	22	36

25. Customer accounts

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Client money held under TTCA	258,541	142,616
Independent amount received on CDS agreement	-	50,000
Total due to customers	258,541	192,616

Client money held under title transfer collateral arrangement ('TTCA') include credit balances in client accounts arising from deposits of funds, proceeds from sales of securities, and dividend and interest payments received on securities held in client accounts. Cash balances on TTCA accounts represent free credit balances which are held pending re-investment by the clients and/or represent funds received from clients to support their trading activities, primarily as collateral for short selling of securities. Under these arrangements, the Company has the full right of use of the collateralised assets without giving further notice to the clients.

26. Deposits and borrowings

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Loans payable to related parties	40,760	-
Total deposits and borrowing	40,760	-

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27. Provisions

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Provision for credit loss for off-balance sheet items	23	90
Other provisions	157	108
Total provisions	180	198

28. Other liabilities

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Amounts due to related parties	984	7,930
Short-term employee benefits including taxes	6,788	4,583
Accrued expenses	1,901	3,623
Lease liability	1,651	1,246
VAT payable	-	99
Defined contribution pension liabilities	25	24
Other payables	2,351	3,333
Total other liabilities	13,700	20,838

See note 31 for details of amounts held with related parties.

29. Share capital

	Year ended 31 December 2020 (thousands of shares)	Year ended 31 December 2019 (thousands of shares)	Year ended 31 December 2020 (thousands of US Dollars)	Year ended 31 December 2019 (thousands of US Dollars)
In issue at 1 January	86,165.3	56,165.3	90,696	60,696
Issued and fully paid during the year	-	30,000.0	-	30,000
In issue at 31 December - fully paid	86,165.3	86,165.3	90,696	90,696

As of 31 December 2020, all the ordinary shares carried one vote each.

The Company does not have a total authorised share capital in line with the Companies Act 2006, which removed this requirement.

During year ended 31 December 2020 the Company declared and paid dividends in the amount of \$4,958k (31 December 2019: nil).

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30. Fair value reserve

The fair value reserves include the cumulative net change in the fair value of investment securities measured at FVOCI until the assets are derecognised or reclassified.

31. Related party transactions

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

31.1. Parent and ultimate controlling party

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

At 31 December 2020 and 31 December 2019 and for the years then ended, the outstanding balances with the parent were nil.

For the years ended 31 December 2020 and 31 December 2019 related expenses with the parent company were as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Statement of Profit or Loss and Other Comprehensive Income		
Administrative and other operating expenses	(876)	-

31.2. Directors' emoluments

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Emoluments	1,765	1,918
Pension and other benefits	39	33
Total	1,804	1,951

Directors' emoluments and emoluments of the highest paid director are disclosed on an actual payment basis and include fixed compensation paid in the period and bonuses paid in the period. The aggregate emoluments paid to the highest paid director were \$737k (31 December 2019: \$543k), 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.

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31. Related party transactions (continued)

31.3. Transactions with other related parties

At 31 December 2020 and 31 December 2019 and for the years then ended, the volumes of related party transactions, outstanding balances as of reporting date, and related income and expenses were as follows:

(in thousands of US Dollars)	2020		
	Gross carrying amount	ECL allowance	Carrying amount
Statement of Financial Position			
Amounts due from related parties			
Cash and cash equivalents	14,853	(7)	14,846
Settlement balances - receivables	30,699	(14)	30,685
Receivables under reverse repurchase agreements	240,820	(19)	240,801
Derivative assets	4	-	4
Other assets	10,045	(5)	10,036
Amounts due to related parties			
Settlement balances - payables	(38,371)		(38,371)
Payables under repurchase agreements	(170,202)		(170,202)
Derivative liabilities	(42)		(42)
Customer accounts	(102,836)		(102,836)
Deposits and borrowings	(40,760)		(40,760)
Other liabilities	(1,948)		(1,948)

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

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31. Related party transactions (continued)

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Statement of Profit or Loss and Other Comprehensive Income		
Fee and commission income	18,696	18,952
Fee and commission expense	(7,932)	(23,105)
Interest income calculated using the effective interest method	28,229	83,993
Other interest income/(expense)	(2,284)	(1,258)
Interest expense	(6,570)	(7,916)
Impairment gain/(losses) on financial assets	46	(545)
Net income from other financial instruments at FVTPL	198	(2,137)
Impairment losses on other assets	-	(1,634)
Administrative and other operating expenses	(177)	(151)

All repurchase agreements with related parties are collateralised.

During 2020 the Company received a new guarantee of \$25,000k from a related party (2019: \$15,000k).

32. Leases

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

Right-of-use assets

Right-of-use assets relate to leased office premises in London and IT hardware and are presented within property and equipment (see note 23).

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Balance at 1 January	1,036	1,339
Depreciation charge during the year	(425)	(303)
Additions	878	-
Balance at 31 December	1,489	1,036

See note 5 for maturity analysis of lease liabilities as at 31 December 2020.

Amounts recognised in profit or loss

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Interest on lease liabilities	44	50
Expenses relating to short-term leases	196	152

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32. Leases (continued)

Amounts recognised in statement of cash flows

	Year ended 31 December 2020	Year ended 31 December 2020
(in thousands of US Dollars)		
Total cash outflow for leases	535	227

33. Credit related commitments

The Company has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved credit line limits.

At the 31 December 2020 the Company had credit facilities available to clients totalling \$7,000k which had been provided but not used (31 December 2019: \$7,000k).

Movement in the loss allowance for the credit related commitments during the year ended 31 December 2020 and 31 December 2019 are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
(in thousands of US Dollars)		
Loss allowance at 1 January	(9)	(9)
Charge of loss allowance	(7)	-
Loss allowance at 31 December	(16)	(9)

34. Subsequent events

On the 24th of March 2021 the directors of the Company declared a dividend for the year in the amount of \$2,964k. This is planned to be paid during the second quarter of 2021.