Sova Capital Limited

Reports and Consolidated Financial Statements

Year Ended

31 December 2019

Company Number 04621383

Sova Capital Limited

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Sova Capital Limited

Company Information

Directors	Nikolay Katorzhnov (non-executive director) Howard Snell (non-executive director) Sergey Sukhanov (executive director) Oleg Borunov (non-executive director) David Michael Newton (non-executive director) Alla Bashenko (non-executive director, appointed 30 March 2020)
Registered number	04621383
Registered office	12th Floor 88 Wood Street London EC2V 7RS
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU

Introduction

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2019.

During 2019 Sova Capital Limited (hereinafter 'Sova", "the firm" or "the Company") continued to strengthen its risk and compliance framework, concentrated on continuing its strong financial performance, maintained a robust capital and liquidity position and continued to deliver greater value to its clients and shareholders.

At the time of this report and as a result of the COVID-19 pandemic there has been a significant rise in global uncertainty. This uncertainty continues without any clear indication as to the eventual severity or duration of the pandemic and the resulting threat to global health and economic disruption.

To respond to this, the firm has taken a number of actions to ensure that it remains adequately capitalised and liquid, even if the current economic disruption continues for a prolonged period. Further details of the firm's assessment of its business continuity plans, capital, liquidity and the outlook for its profitability during the pandemic are set out later in this report.

Business review, financial performance, objectives and strategy

In accordance with its strategic vision, the firm has continued to further develop the multi-dimensional diversification of its business model in terms of products, clients, client segments, markets and new geographies. The firm has substantially enhanced its operational capabilities and operational resilience, as well as achieving excellent results in terms of financial performance and regulatory capital position.

In 2019 the firm acquired Sova Asset Management (CY) Ltd ("SAM"), an alternative investment fund manager regulated by the Cyprus Securities and Exchange Commission ("CySEC"). SAM manages two investment funds with several segregated compartments, namely Sova Fund Variable Capital Investment Company (CY) Ltd and Sova Discipline Equity Fund SPC. In 2019 SAM submitted the application to the CySEC for the change in its shareholding structure and extension of license for provision of investment services; the application was considered by the regulator and approved in November 2019. Management strongly believes that this acquisition will assist in a further expansion of the firm's client base and will bring about additional diversification of revenue streams within the Sova Capital Group.

On 24 July 2019, the ownership structure above Sova was simplified. Whilst the firm's ultimate shareholders remained unchanged, a number of the intermediate holding companies between them and Sova were removed.

The directors believe that this has been a positive change which will strengthen the firm's position from the regulatory point of view and will create a focused UK and EU business. In line with the long-term strategy, the reorganisation will assist in building the platform for sustainable growth, further enhancing the firm's stability, striving to benefit from new opportunities as well as delivering high quality services and expanding its future business lines.

In April 2019 Sova became the first international firm to be granted individual clearing member ("ICM") status on the Moscow Exchange, and was accepted as a direct member of the largest Russian clearing services provider, the National Clearing Centre. As such the firm was recognised as being a major market player and further dedicated to creating new opportunities for its clients and to minimising the risks to which its clients are exposed.

The firm was also nominated the "Best Prime Broker – Technology" and the "Best Prime Broker in Emerging Markets" by HFM European Hedge Fund Services Awards.

In line with its strategy, the Capital Markets department (its flow and proprietary trading activities are properly segregated) focused on further expansion into emerging markets and broadening its market approach. The department significantly exceeded its financial projections for 2019.

The Repo & Treasury department concentrated on growing the firm's client base and enhancing the firm's liquidity position; the department secured several major deals, which ultimately resulted in an increase in the firm's profitability and creditworthiness.

The Capital Markets Origination ("CMO") department continued to strengthen and diversify its product offering to both existing and new clients. The firm acted as a joint lead manager and a book runner in a $500 million Eurobond issue for Credit Bank of Moscow, the firm's second such transaction.

The firm continued to pursue its strategy of expanding its presence into other emerging markets, with key priorities being the Central and Eastern European Countries ("CEECs"). Such partnerships will serve to achieve the firm's strategic objective of building an investment bank specialising in emerging markets and offering a wide-range of financial services.

In 2019 the Research department claimed the No.1 spot in Russia's Consumer & Retail coverage in the prestigious Extel Survey's ranking and made it to the Top-3 both in Banks & Financials and Small & Mid Caps. The firm has also advanced in the Equity Sales and Oil & Gas categories. During the year the Research department focused on launching new products and enhancing the firm's coverage of the Consumer & Retail, Utilities, Metals & Mining and Transportation sectors; this resulted in a great achievement for the firm - client readership reached a new post-MiFID record high in 2019.

Alongside the achievements in the firm's business areas, the corporate governance capabilities were also strengthened. The key development was the introduction of the C-Suite and the new Executive Committee, reporting to the Board and acting as an advisory committee to the CEO and providing assistance to him in the execution of his duties. This change aims to improve the firm's corporate governance arrangements by enhancing the oversight arrangements as well as creating a key forum for day to day management of the firm.

The firm believes that its people make a critical difference to its success. During 2019 it invested significantly in developing its people, organising the Sova Academy and arranging a comprehensive training programme for middle management.

Key performance summary

The firm employs a number of key financial performance indicators (KPIs) in measuring its financial performance and these are considered collectively in assessing the firm's overall financial position and performance. Net profit after tax, the Return on Equity ("ROE"), and the Cost to Income Ratio ("CTI") are amongst some of the more common measures used. Total assets have increased by 22% compared to 2018, due to various factors, such as positive results in sale and repurchase agreement activity, which resulted in an increase in the firm's reverse repurchase balances from $1,350m to $1,471m; an increase in our cash balances from $381m to $566m; and growth in the firm's open positions in financial instruments from $727m to $925m.

Within the same period net profit after tax increased by 90.68% to $65m. This was predominantly driven by substantial revenues generated from increased trading activity amongst a wider range of financial instruments, coupled with an improvement in our sale and repurchase agreement activity.

The firm's measure of ROE (calculated by dividing net profit after tax by average total equity) is used by management as a strategic measure to assess the return on shareholder funds invested, and was calculated as 16.65% at the year-end (9.25% in 2018). This was an excellent result and in line with the firm's long-term strategy.

CTI measures the cost of running the firm's business in relation to its operating income and is calculated by dividing the firm's operating expenses by its operating income. CTI has substantially improved since 2018, reducing from 54% (2018) to 37% (2019), driven primarily by optimised cost management processes, improvements in operational efficiency and growth in income achieved in 2019.

Principal risks and uncertainties and our approach to risk management

Risk management is an integral part of the firm's business. Management identifies the risk appetite as an optimal portfolio of three categories of risks:

1. Risks with minimal appetite: legal, regulatory and financial risk, including tax.
2. Actively mitigated risks: cyber risk, financial capital, information systems and human resources.
3. Actively managed risks: markets, products and clients.

Management sees the principal risks for the firm as market risk, credit risk (including counterparty credit risk) and operational risk (including the risks related to systems infrastructure and people). In a strategic move to address these, management seeks to use its inherent expertise along with acquiring the best human resources and deploying the best technologies.

The risk appetite is overseen by the Board, where it ensures that the risks taken by the firm at each level and in each area are in line with the firm's risk capacity and the approved business strategy. Management clearly understand that they cannot eliminate completely all risks sitting within the first category above; however, management set close to zero tolerance for them and actively manage them via risk mitigation techniques, systems and controls. As for the second category, management set certain tolerances for those risks, which are subject to ongoing monitoring, remediation and mitigation. As a supportive measure to the enterprise risk framework, management have invested in a system solution – Enterprise Risk System (ERS) - for the aggregation of risk exposure and for its holistic management. Management further employ the well established ''three lines of defence" approach and the 'four eyes" principle across the firm.

The 'tone from the top' actively promotes a culture whereby each employee assumes the responsibility of being the risk manager of first instance. Management ensures that all relevant policies, manuals and procedures are implemented across various departments and that members of staff operate within the parameters of the enterprise risk framework. The risk profile is assessed at the Risk Management and Compliance Committee ("RMCC") level as well as at the Board Risk and Compliance Committee ("BRCC") level.

Risk management's focus remains to identify and assess all relevant and material risks and to set appropriate tolerances consistent with the firm's risk appetite. Risk management actively manages the firm's risks through a real-time monitoring and daily reporting on credit, market and operational risk. Its Risk department works closely with the trading departments to ensure relevant limits are adhered to and any breaches are monitored and escalated.

The firm's risk management framework consists of the Board of directors, the Board Risk and Compliance Committee (BRCC), the Risk Management and Compliance Committee (RMCC), the Chief Risk Officer and the Risk Management Department. The framework focuses on the various risks the firm is, or could be, exposed to. The Chief Risk Officer is the Chairman of the RMCC and consistently attends BRCC meetings.

Counterparty Risk

The firm defines counterparty risk as a combination of pre-settlement and settlement risk:

- Pre-settlement risk is defined as a risk that one party of a contract will fail to meet the terms of a contract and will default prior to a contract's settlement date prematurely ending the contract. The type of risk may lead to the replacement costs and a substantial potential future exposure amount.

- Settlement risk is the risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the risk associated with default at settlement and any timing differences in settlement between the two parties. This risk may result in a loss equal to the cost of replacement of original terms of the transactions or an entire principal amount.

As a significant proportion of the firm's transactions are conducted on the basis of "delivery versus payment", this minimises the risk of exposure to any trading positions. This does not, however, eliminate risk entirely in the combination of circumstances in which the counterparty fails and the value of stock awaiting settlement against payment changes adversely. To guard against this, the firm sets limits for various counterparties and monitors these limits constantly. The limits are also set for the banks and brokers to set the maximum tolerances to mitigate the losses to insolvency.

The firm provides services of trading in exchange traded derivatives, margin trading, securities financing, equities lending and borrowing. Exposure values to clients through the provision of these services are determined using mark to market methods. In all cases where such transactions place the client or the firm at risk, the firm will hold adequate collateral and provisions for netting arrangements. This normally takes the form of a lien over the customer's assets, giving a claim on these assets for both existing and future liabilities.

Concentration risk

Credit risk concentrations include:

- a significant exposure to an individual counterparty or group of counterparties;
- credit exposures to counterparties in the same economic sector or geographic region;

- credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and
- indirect credit exposures arising from the firm's activities (e.g. exposure to a single collateral type or to credit protection provided by a single counterparty).

Trigger events that can exercise concentration risk are as follows:

- the firm's use of a single settlement agent;
- amounts due from connected companies; and
- default by a counterparty on a large transaction.

Market risk

Market risk is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. The firm undertakes trading activities in various financial instruments. It has exposures in equity, equity derivatives, fixed income instruments, currencies and commodities. The fluctuations in asset prices and values are limited via a number of market risk limits, such as position limits, limits tolerating the negative financial result and limits on sensitivities to the risk factors.

Foreign exchange risk

Foreign exchange ("FX") risk arises when the firm enters into transactions denominated in a currency other than its functional currency.

The firm has currency exposures and maintains positions in a variety of currencies to support its trading activities, with its principal exposure being in US Dollars. The firm has a modest risk appetite in proprietary dealing in FX, however, its main focus is to derive gains on arbitrage opportunities in market neutral strategies. The firm's policy requires that any significant FX exposure must be hedged using available currency instruments, including derivative contracts.

Liquidity risk

Liquidity risk is the risk that the firm will encounter difficulty in meeting its obligations from its financial liabilities. The firm's risk appetite is set to ensure that, at all times within the set time horizon, it will always have sufficient liquidity to meet its financial liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. The firm mainly operates within very short tenors and maintains a buffer portfolio of cash and high quality liquid assets to ensure that sufficient liquidity is maintained. The firm's liquidity position is monitored constantly and management information is provided to senior management on a daily basis. The firm deems that it has sufficient liquidity for its current and near future activities.

Operational risk

The firm defines operational risk as the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems or from external events. The firm manages this risk through the existence and application of policies, procedures and internal controls, including key risk indicators ("KRIs") and key performance indicators ("KPIs"), to ensure compliance with all relevant laws and regulations, including defined risk tolerances. The quality and timeliness of risk mitigation strategies employed is monitored by the Operational Risk Management unit, with oversight from the Risk Management and Compliance Committee.

Cyber Risk

Cyber risk and risks to data security are considered one of the most significant threats to Sova and the financial services industry more generally.

Cyber and data security risks include:

- the risk of financial loss;
- the ability of the firm to carry on its day to day operations efficiently and safely;
- damage to the reputation of the firm from failure of its IT systems; and
- potential fines from regulators for a failure to properly protect data.

During the year the firm undertook a review of our cyber and data security systems. As a result of this review, the Board approved a plan of phased improvements to our systems and controls. The Board also approved two new appointments being a new position of Chief Information Security Officer and a Data Protection Officer to ensure compliance with applicable data security regulation.

Brexit - the United Kingdom leaving the European Union

As with the market as a whole, Brexit continues to remain a significant source of uncertainty for the firm. We believe that these uncertainties (and their associated risks) may linger well beyond the formal exit date of 31 December 2020, as the UK and EU will continue to iron out the post-Brexit regulatory and business frameworks.

The impact of Brexit has been closely monitored by the firm, followed by the assessment of several critical areas such as client flows and trading strategies, vendor agreements and the potential vulnerability of key personnel to the change in employment regulations and disruptions in the labour market.

The firm performed a comprehensive suite of Brexit stress testing, applying various scenarios, and concluded that given the firm’s current client base and activities, Brexit would not significantly impact the firm’s business model in the foreseeable future.

It is also the firm’s belief that Brexit may continue to have negative effects on UK asset prices, potentially creating investment opportunities for the firm. Notwithstanding its current position on Brexit, the firm will continue to monitor and assess Brexit-related risks, particularly those brought about by the market uncertainty. Against this backdrop the firm is keeping its options open, and will respond appropriately to ensure that it is able to continue operating under its current franchise and business model. The acquisition of a European banking licence to capture new business opportunities in Continental Europe (as stated below), and to diversify the firm’s risks further, is an option that the firm is closely considering.

Climate change

The firm acknowledges the increasing importance of this type of risk and its multi-dimensional impact and, accordingly, started incorporating this risk into its overall risk framework. The first step was an articulation of the environmental risk appetite within the Risk Appetite Statement.

During the risk assessment process, management identified that climate change risk may crystallise via the following risk types:

Market risk – asset revaluation and liquidity squeeze due to climate change.

Credit risk – deterioration of credit quality of new and existing counterparties due to their exposure to the following factors (including, but not limited to):

- impact of international and national climate regulation;
- ability to absorb increased compliance and operating costs;
- exposure to the financial impacts of non-compliance;
- reputational risk (climate factors); and
- risk of technological disruption.

Operational risk – this factor may result in a negative impact of climate change on people, systems and processes.

Reputational risk – this may cause deterioration in the market perception of the firm either due to the provision of non-environmentally friendly services or dealing with third parties causing a negative effect on the climate.

The firm has appointed a member of senior management to be responsible for coordinating various initiatives in the area of climate change and to regularly report progress to the Board.

Transition away from LIBOR to Risk Free Rates

UK and international regulators (under the auspices of the Financial Stability Board) have initiated a move in benchmark rates away from LIBOR and similar interbank offer rates ("IBOR") to a framework of Risk Free Rates (RFRs) or Alternative Benchmark Rates (ABRs). This is a significant change for the global financial services industry and is a significant challenge for all firms in the coming year.

The FCA's objective is that the use of LIBOR should cease completely as a reference rate by the end of 2021 and to replace it with RFRs. Regulators are proposing that each of the major currencies will use a different RFR which will impact Sova as we write contracts in US dollars, Russian rubles, British pound sterling and others.

The change to RFRs will impact both existing and new transactions. For any existing products with a maturity after 2021 the firm needs to ensure that there is a smooth transition which may include changes to existing contractual terms, changes to the way in which we value exposures, system and process updates to accommodate interest calculations, accounting accruals and reporting and payment flows as well as assessing whether related hedging strategies still achieve the objectives for which they were designed.

For new contracts and products which will extend beyond 2021, the firm needs to ensure that its systems and process capabilities are operating effectively to be able to deal with these new requirements.

Progress of our LIBOR transition team and their LIBOR plan is a regular item on the agenda of the Board and the BRCC meetings.

COVID-19 Pandemic

Macroeconomic overview

Management estimates the coronavirus outbreak will have a significant disruptive impact on the performance of the global economy. Supply chain arrangements have been under substantial pressure from the beginning of 2020. As of the end of 1Q2020 there is no evidence that the peak of the outbreak is behind us; we consequently believe that the economic impact of the unprecedented anti-virus measures undertaken globally are yet to be assessed and factored into asset prices. Management intend to review the business strategy by the end of 1H2020 in order to incorporate the newly available economic data into the models.

Operational resilience

The firm has been closely monitoring the developments around the spread and impact of the Covid-19 virus and likely government responses. In the short term Sova has taken a number of actions to ensure operational resilience, with the safety of our staff and clients in London and Moscow being our first priority. These include remote working, travel restrictions, self-isolation for a number of staff members, and changes to office protocols to ensure safe working, if and when, staff are in the firm’s offices.

Business continuity planning

The firm has also put an emergency business continuity plan in place that specifically deals with the possible impact of an evacuation of our premises in London or Moscow, restrictions on the availability of public transport services or the ability to leave home during a lockdown period. Given the significant impact of the ongoing lockdowns in the UK and Russia since March 2020, the firm has requested most of its staff to work remotely from home. Over 95% of all employees are currently working from home, with full access to Sova’s key systems and full IT support. Sova expects to be able to continue this working model for a prolonged period without compromising operational activities and all key functions continue to operate without disruption.

Board and management

The Board is in frequent contact during this period and the CEO prepares regular updates on all aspects of the business including the impacts on capital, liquidity and trading. The Board is also meeting formally on a more frequent basis to ensure that appropriate oversight and governance remain in place. Below the Board, the Executive Committee continues to meet regularly to ensure that the business functions with the appropriate level of management, oversight and control.

Government support measures

As explained further below, the firm does not see the need to take advantage of any UK government support measures, such as the furloughing of staff or the raising of finance from banks using UK government loan guarantee schemes.

Management actions

As a result of the pandemic and associated economic volatility the firm's performance may be affected, depending on the severity and length of the outbreak and the resulting impact on both our client base and the markets in which we operate. This is an area of significant management scrutiny at the moment with heightened monitoring of such areas as margin calls, collateral and individual customer impacts. Some parts of the business have seen an increase in activity during this period, for example, as our clients seek to take advantage of what they see as opportunities in the market.

Capital needs

The firm is also monitoring its capital needs very carefully. At the start of the year the firm had total capital of $355m and a Tier 1 capital ratio of 20.33%. Since the onset of the crisis the firm has taken steps to reduce its own market exposure by more than 45%. The firm has also reduced the size of its repo book and is focused on certain securities which have clear market liquidity. The repo book has continued to trade satisfactorily at this reduced level and is well within its allocated capital requirements. Sova holds a fixed income portfolio of around $180m as at 31 March 2020, and the firm has modelled the performance of this portfolio in various stress scenarios and concluded that it will have adequate capital resources to manage any impairment to this portfolio.

Liquidity

Risk Management has also developed several scenarios of potentially severe impact on the liquidity risk profile of the firm, such as the reluctance of repo liquidity providers to roll over open trades and foreign exchange markets becoming unavailable. In addition, the firm has activated plans for a small core team to meet daily (online as necessary) to manage our liquidity position. This has enabled Sova to manage its liquidity position effectively on a day to day basis. The firm has also maintained a substantial liquidity buffer, which is a core element of its survival strategy in case of a liquidity squeeze in the markets. At 27 April 2020 the immediately available cash liquidity buffer was $280m. In addition, the company is holding high quality liquid assets ("HQLA") of $35m on the same date.

Stress Testing

Stress-testing is another important tool that management employ routinely in executing the business strategy. As part of its ICAAP process in 2019, the firm conducted various stress tests to ensure that it could survive a severe market stress. These stress scenarios included a significant number of client departures, a reduction in trading activity (for both clients and the firm's proprietary desk) and defaults of the several issuers of fixed income instruments held by the firm within the trading book. The results of this exercise showed that the firm had sufficient capital to be able to deal with the impact on its capital of such significant market stress events.

The firm is now in just such a stress scenario and the measures taken by the firm set out above, and the forecasts of the impact of future disruption, give the directors a high degree of confidence over the firm's ability to survive this period of material uncertainty.

Income statement in 2020

These uncertainties will have an impact on profitability in 2020. Whilst it is difficult to predict with a high level of precision exactly how the firm's profitability will be affected, the core client flow business and repo business should remain profitable. The firm has a level of fixed overhead, particularly staff remuneration, which it must continue to pay. No decision has been taken yet on the level of any bonus payments in relation to the prior year performance, but the directors will have regard to the ongoing stability and financial wellbeing of the firm before making such decisions. The directors believe that although the financial result for the year is uncertain, the firm will be able to manage the results to enable the firm to weather the existing current uncertainties.

Going concern

The directors have carefully considered the going concern basis of preparation of the accounts. They have concluded that such a basis remains appropriate as more fully set out in the Director's report and there is no material uncertainty.

Non-financial performance indicators

In addition to financial performance indicators, the firm monitors non-financial indicators in measuring its performance. These include indicators focused upon factors such as brand awareness, compliance and conduct measures, and regulatory and legal indicators.

The Compliance function has seen considerable growth throughout 2019. The past year has seen a marked development in the control functions generally, but in particular in Compliance where a significant degree of upskilling was undertaken - in both Moscow and London - in parallel with a programme of automation of compliance processes. In addition, the firm engaged external consultants to help accelerate the enhancement of certain Compliance projects; notably Transaction Reporting remediation, the FCA's Senior Managers & Certification Regime ("SMCR") implementation and enhancements to the firm's Market Abuse control framework. The aim is to build a robust Compliance function, future-proofed for identified upstream regulatory risk and able to offer strong support to senior management as the firm looks to achieve its ambitious strategic plans.

The firm continues to invest significantly to improve its brand recognition and perception, and aims to increase its brand visibility globally. During 2019 it made marked progress in boosting its brand awareness through regular publications in well recognised media and, thus increased its 'brand mentions' considerably within the Russian business media.

Governance

The Governance structure of Sova is set up in accordance with the principles of good corporate governance.

Sova is authorised and regulated by the Financial Conduct Authority.

The Board provides overall direction to the firm by ensuring that the firm's affairs are managed in the interests of its shareholders and other relevant stakeholders. The Board is responsible for establishing the vision and values of Sova, setting policies and strategy and ensuring that the relevant structures and appropriate delegation to management are in place.

Sova employs two independent UK-based non-executive directors, one of whom is the Chair of the Board Audit Committee ("BAC") and the other the Chair of the Board Risk and Compliance Committee ("BRCC"). At the time of writing this Sova was in the process of appointing a new independent non-executive director and until such time as this person receives FCA approval the BRCC is chaired by the Chairman of the Board.

The Board delegates certain responsibilities to its relevant sub-committees (Board Audit Committee, Board Risk and Compliance Committee, Board Nomination Committee and Board Remuneration Committee) as well as to the CEO who in turn delegates responsibilities to the Executive Committee and its individual members. The firm also has a Risk Management and Compliance Committee and an Operational Committee. Sova's management level committees, mentioned above, ensure effective implementation of all major policies and operating processes and decisions; establishing clear policies and decision-making procedures; and ensuring appropriate risk management through the three lines of defence and four eyes models.

As part of the third line of defence model, independent, risk-based internal audit reviews are also undertaken on a regular basis and Sova is externally audited by BDO. The Chief Internal Auditor reports directly to the Chairman of the BAC.

Further details in relation to how Sova manages its obligations to a wider group of stakeholders and how it ensures that the right cultures and behaviours are embedded in the organisation are set out in the next paragraph.

Section 172 of the Companies Act

The directors act in a way that they consider, in good faith, to be most likely to promote the success of Sova Capital Limited for the benefit of its shareholders and a wider group of stakeholders, and in doing so have regard, amongst other matters, to:

(i) the interests of the employees of Sova;
(ii) the need to ensure that the firm operates in an open, transparent and fair way with customers, suppliers and others;
(iii) the broader impact of the firm's operations on the community and the environment including climate change impacts;
(iv) the desirability of the firm by maintaining a reputation for high standards of business conduct;
(v) creating an open, transparent and trust based relationship with our regulators;
(vi) the likely consequences of any decision over the longer term;
(vii) the need to act as a good corporate citizen for example in relation to our tax affairs where we endeavour to follow not just the letter of the law but also the spirit of the law; and
(viii) the need to act fairly between members of the firm.

The Board considers strongly that only if a robust and ethical culture is at the heart of the way the firm and its people do business, will it be able to achieve its strategic objectives in a manner which will enable the greatest possible benefit to accrue to the widest body of stakeholders. To this end, the Board has placed at the centre of its training and senior management 'tone' a marked stress on individual accountability and conduct compliance. It is for every employee, not just senior managers or compliance, to engage in a drive to further develop a transparent and pro-actively ethical culture.

We acknowledge that the firm can only maintain its reputation as a responsible corporate citizen if it is managed in a way that promotes the well-being of all stakeholders involved with the firm.

We are a relatively small company by number of employees which gives us the benefit of a high-level of personal employee engagement. In addition to that, the firm has a number of means to engage directly with employees through regular meetings with the CEO, regular updates via email and an encouragement to provide feedback (either by name or anonymously).

At our core we are a relationship based firm and our success is based on building long term trusted relationships with our customers and suppliers. Our staff receive regular training in relation not only to applicable regulations but also the need to uphold the highest standards of behaviour both inside and outside the firm.

Future developments

In line with its long-term strategic plan, the firm is considering opportunities for further European acquisitions, for example, a niche credit institution which is subject to European banking regulatory supervision. Such an acquisition would serve to expand the firm's presence in the EU, provide further opportunities post-Brexit and would closely align with the firm's strategic goal of becoming a 'one-stop' financial services provider, by allowing it to offer a wide-range of financial services. During the year, the firm has reviewed several potential targets for acquisition and is currently assessing the options.

Conclusion

The firm acknowledges that 2020 will be a year of exceptional economic and geopolitical uncertainties. However, given the significant improvements made during 2019 in relation to our operational efficiency and resilience, risk and control framework, our effective business model and the exceptional dedication and professionalism of our colleagues, we are confident that we are well-placed to manage the uncertainty and remain positive about our future prospects.

This report was approved by the Board of directors and signed on its behalf.

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Sergey Sukhanov
Director
Date: 11 MAY 2020

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

In November 2019 the firm obtained control over Sova Asset Management (CY) Ltd. In accordance with IFRS 10 "Consolidated Financial Statements" the firm has prepared and presents the consolidated financial statements for the year ended 31 December 2019. The financial statements are prepared in US Dollars ($) as this is the underlying currency in which the company conducts its principal activities.

Matters included within the strategic report

The details of the business review, details of the risk management objectives, the Company's principal risk exposures, capital and liquidity management, the Company's response to COVID-19 and future developments have been included within the strategic report.

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the consolidated financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare consolidated financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with applicable laws and International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue to be in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities

The core activity of the Group is acting as a financial services provider across fixed income, equities, commodities, foreign exchange, derivatives both exchange traded and over the counter, structured products, financing and prime services including custody, clearing and settlement, electronic access and execution services. The Group's three core activities are proprietary trading, broking and financing. In 2019 the firm acquired Sova Asset Management (CY) Ltd ("SAM"), an alternative investment fund manager regulated by the Cyprus Securities and Exchange Commission ("CySEC"). SAM manages two investment funds with several segregated compartments, namely Sova Fund Variable Capital Investment Company (CY) Ltd and Sova Discipline Equity Fund SPC. In 2019 SAM submitted the application to the CySEC for the change in its shareholding structure and extension of license for provision of investment services; the application has been considered by the regulator and was approved in November 2019. The directors strongly believe this acquisition will assist in a further expansion of the firm's client base and will bring about additional diversification of revenue streams within the Sova Capital Group.

A review of the business and assessment of financial risk management objectives and policies including exposure to credit risk, market risk, liquidity risk and operational risk are included in the strategic report along with the disclosure of anticipated future developments in the business.

Post balance sheet events

COVID-19

Since the beginning of the year there has been a significant rise in global uncertainty as a result of the COVID-19 pandemic. Economic activity has been affected globally with many countries, including the UK and Russia, bringing in lockdown measures.

The precise impact of the COVID-19 pandemic cannot be quantified at the date of signing of the balance sheet. An assessment of the likely impact of the pandemic on the Company has been considered in the COVID-19 section of the strategic report.

Russian legal case

The firm has been named in a Russian court case, the details of which are set out in Note 25 to the financial statements.

For the reasons set out in Note 25, the directors do not consider the potential for any eventual liability falling upon the firm to be probable.

Going Concern

The directors have made an assessment of the Company's ability to continue as a going concern, particularly in light of the challenges presented by COVID-19.

In making this assessment the directors have taken into account all information of which they are aware concerning the future trading position of the Company which is at least, but not limited to, 12 months from the date that the balance sheet is signed. In making this assessment, the directors have considered likely trading patterns and, to the extent possible, the impact of COVID-19, estimated capital and liquidity requirements, the results of stress testing models undertaken as part of the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP") and potential impact of the future trading relationship between the UK and the European Union.

The directors are satisfied that the Company has the resources to continue in business for the foreseeable future. Having made an assessment of the impact of COVID-19, the directors are not aware of any material uncertainty that may cast doubt on the ability of the Company to continue as a going concern. The results of stress testing undertaken as part of the ICAAP and

ILAAP processes were taken into consideration in making this assessment. More detail on these matters as well as the Company's business continuity arrangements during the pandemic can be found in the strategic report.

Results and dividends

The profit for the year, after taxation, amounted to $65,474,530 ($34,191,694 in 2018).

The Directors paid interim dividends of $56,000,000 ($nil in 2018). The Directors do not recommend the payment of a final ordinary dividend (nil in 2018).

Directors

The directors who served during the year were:

Nikolay Katorzhnov (non-executive director)
Howard Peter Snell (non-executive director)
Sergey Sukhanov (executive director)
Oleg Borunov (non-executive director)
Kerim Richard Derhalli (independent non-executive director) (resigned 6 December 2019)
Michael David Newton (independent non-executive director)
Alla Bashenko (independent non-executive director, appointed 30 March 2020)

No contracts of significance in relation to the Company's business in which a director had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year, within the meaning of Section 413 of the Companies Act 2006.

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 consolidated financial statements.

Donations

During the year there were no political donations (nil in 2018).

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the directors have taken all the steps that ought to have been taken in order to be aware of any relevant information and to establish that the Group's auditor is aware of that information.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board of directors and signed on its behalf.

....

Sergey Sukhanov
Director
Date: 11 MAY 2020

Independent Auditor's Report to the Members of Sova Capital Limited for the Year Ended 31 December 2019

Opinion

We have audited the financial statements of Sova Capital Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, notes to the consolidated financial statements, Company Statement of Financial Position, Company Income Statement, Company Statement of Comprehensive Income, Company Statement of Changes in Equity, Company Statement of Cash Flows, and the notes to the company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards (IFRSs) as adopted by the European Union

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit and the Parent Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities 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 Group and the Parent 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Strategic report and Directors' report, other than the financial statements and our auditor's report thereon. 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 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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 Statement of Directors Responsibilities, 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 Group's and the Parent 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 Group or the Parent 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 these financial statements.

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Ariel Grosberg (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

Date: 11 May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Sova Capital Limited

Registered number: 04621383

Consolidated Statement of Financial Position
as at 31 December 2019

	Note	31 December 2019 $	As restated 31 December 2018 $	As restated 1 January 2018 $
Non-current assets				
Intangible assets and goodwill	5	1,013,857	408,033	539,200
Property, plant and equipment and right-of-use assets	6	6,831,815	1,115,641	737,211
Deferred tax asset	22	1,342,204	1,189,794	768,431
		9,187,876	**2,713,468**	2,044,842
Current assets				
Cash and cash equivalents	7	566,096,600	380,710,201	190,521,848
Financial assets at fair value through profit or loss	8	699,176,609	349,866,216	718,181,057
Financial assets at fair value through profit or loss pledged under repurchase agreement	8	225,694,779	377,676,200	184,735,921
Amount due from credit institutions and other customers	9	1,500,026,677	1,354,235,393	218,794,763
Investment securities available-for-sale		–	–	5,331,500
Financial assets at fair value through other comprehensive income	10	35,600,905	35,236,100	–
Other assets	11	136,102,172	102,859,996	124,418,959
		3,162,697,742	**2,600,584,106**	**1,441,984,048**
Total assets		**3,171,885,618**	**2,603,297,574**	**1,444,028,890**
Non-current liabilities				
Lease liabilities		5,140,150	–	–
		5,140,150	**–**	**–**
Current liabilities				
Financial liabilities at fair value through profit or loss	12	232,273,092	165,238,211	174,098,116
Amounts due to credit institutions and other customers	13	1,893,703,768	1,505,183,407	311,482,644
Income tax payable	21	12,895,382	509,772	2,318,996
Other liabilities	14	631,407,238	545,675,079	603,620,080
		2,770,279,480	**2,216,606,469**	**1,091,519,836**
Total liabilities		**2,775,419,630**	**2,216,606,469**	**1,091,519,836**
Capital and reserves				
Share capital	15	346,031,694	346,031,694	346,031,694
Share premium		4,500,566	4,500,566	4,500,566
Financial assets through other comprehensive income reserve		457,378	199,624	–
Available-for-sale reserve		–	–	647,405
Foreign currency translation reserve		4,706,591	4,663,992	4,663,992
Retained earnings		40,769,759	31,295,229	(3,334,603)
Total equity		**396,465,988**	**386,691,105**	**352,509,054**
Total equity and liabilities		**3,171,885,618**	**2,603,297,574**	**1,444,028,890**

Consolidated Statement of Financial Position (continued)
as at 31 December 2019

The consolidated financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

....

Sergey Sukhanov
Director

Date: 11 MAY 2020

The notes on pages 30 to 97 form part of these consolidated financial statements.

Sova Capital Limited

Consolidated Income Statement
for the Year Ended 31 December 2019

	Note	2019 $	2018 $
Interest income			
Interest income on amounts due from credit institutions and other customers		68,255,969	30,101,390
Interest income on financial assets at fair value through profit or loss		13,097,399	16,854,569
Other interest income		918,515	788,715
		82,271,883	**47,744,674**
Interest expense			
Interest expense on amounts due to credit institutions and other customers		(31,550,872)	(15,150,889)
Other interest expense		(586,456)	(595,193)
		(32,137,328)	**(15,746,082)**
Credit loss allowance		24,475	396,511
Net interest income		**50,159,030**	**32,395,103**
Net commissions income	16	1,585,212	632,951
Net gains/(losses) from financial instruments at fair value through profit or loss	17	102,395,221	(8,837,902)
Net (losses) from financial instruments at fair value through other comprehensive income		–	(362,092)
Net gain/(losses) from foreign currencies	17	7,316,139	(12,247,654)
Net (losses)/gains from derivative instruments	17	(30,643,930)	69,503,685
Other income		7,357,764	8,229,262
Non-interest income		**88,010,406**	**56,918,250**
Personnel and other operating expenses	18,20	(49,010,615)	(47,560,126)
Depreciation of property, plant and equipment and right-of-use assets	6	(1,811,105)	(819,925)
Amortisation of intangible assets	5	(137,855)	(165,047)
Non-interest expense		**(50,959,575)**	**(48,545,098)**
Profit before tax		**87,209,861**	**40,768,255**
Income tax expense	21	(21,735,331)	(6,576,561)
Profit for the period		**65,474,530**	**34,191,694**

The notes on pages 30 to 97 form part of these consolidated financial statements.

Sova Capital Limited

Consolidated Statement of Comprehensive Income
for the Year Ended 31 December 2019

	Note	2019 $	2018 $
Profit for the year		**65,474,530**	**34,191,694**
Other comprehensive income:			
Items that will or may be reclassified to profit or loss			
Unrealised gains from debt financial instruments at fair value through other comprehensive income	10	365,040	101,186
Realised gains on disposal of financial assets at fair value through other comprehensive income, reclassified to profit or loss		–	362,092
Changes in allowance for expected credit loss		–	(2)
Currency translation differences		42,599	–
Income tax effect		(107,286)	–
		300,353	**463,276**
Total comprehensive income for the period		**65,774,883**	**34,654,970**

The notes on pages 30 to 97 form part of these consolidated financial statements.

Sova Capital Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital $	Share premium $	Financial assets at fair value through other comprehensive income reserve $	Foreign currency translation reserve $	Retained earnings $	Total equity $
At 1 January 2019	346,031,694	4,500,566	199,624	4,663,992	31,295,229	386,691,105
Comprehensive income for the period						
Profit for the period	–	–	–	–	65,474,530	65,474,530
Other comprehensive income for the period	–	–	257,754	42,599	–	300,353
Distributions to owners						
Dividends paid	–	–	–	–	(56,000,000)	(56,000,000)
At 31 December 2019	346,031,694	4,500,566	457,378	4,706,591	40,769,759	396,465,988

The notes on pages 30 to 97 form part of these consolidated financial statements.

Sova Capital Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital $	Share premium $	Financial assets at fair value through other comprehensive income reserve $	Foreign currency translation reserve $	Available-for-sale reserve $	Retained earnings $	Total equity $
At 1 January 2018	346,031,694	4,500,566	–	4,663,992	647,405	(3,334,603)	352,509,054
Effect of initial application of IFRS 9	–	–	(263,652)	–	(647,405)	438,138	(472,919)
Restated balance at 1 January 2018	346,031,694	4,500,566	(263,652)	4,663,992	–	(2,896,465)	352,036,135
Comprehensive income for the period							
Profit for the period	–	–	–	–	–	34,191,694	34,191,694
Other comprehensive income for the period	–	–	463,276	–	–	–	463,276
At 31 December 2018	346,031,694	4,500,566	199,624	4,663,992	–	31,295,229	386,691,105

The notes on pages 30 to 97 form part of these consolidated financial statements.

Sova Capital Limited

Consolidated Statement of Cash Flows
for the Year Ended 31 December 2019

	2019 $	As restated 2018 $
Cash flows from operating activities		
Profit for the financial period	65,474,530	34,191,694
Adjustments for:		
Amortisation of intangibles	137,855	165,047
Depreciation of property, plant and equipment and right of use assets	1,811,105	819,925
Credit loss allowance and other provisions	(15,840)	2,889,864
Taxation	21,735,331	6,576,561
Movement in deferred taxation	(511,810)	(96,865)
(Increase)/decrease in financial assets at fair value through profit or loss	(197,431,103)	144,964,088
(Increase) in amounts due from credit institutions and other customers	(146,445,220)	(1,136,060,841)
(Increase)/decrease in other assets	(32,860,171)	21,529,487
Increase/(decrease) in financial liabilities at fair value through profit or loss	67,003,855	(8,990,841)
Increase in amounts owed to credit institutions and other customers	388,431,527	1,193,169,746
Increase/(decrease) in other liabilities	85,337,768	(60,445,243)
Corporation tax paid	(8,390,448)	(8,710,285)
Net cash generated from operating activities	**244,277,379**	**190,002,337**
Cash flows from investing activities		
Purchase of intangible assets	(59,775)	(33,880)
Purchase of property, plant and equipment	(328,634)	(1,198,355)
Purchase of financial assets at fair value through other comprehensive income	–	(34,920,690)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income	–	34,800,391
Acquisition of subsidiary, net of cash received	(1,244,058)	–
Net cash used in investing activities	**(1,632,467)**	**(1,352,534)**
Cash flows from financing activities		
Dividends paid	(56,000,000)	–
Cash outflow for leases	(1,662,876)	–
Net cash used in financing activities	**(57,662,876)**	**–**
Effect of exchange rates changes on cash and cash equivalents	412,998	1,541,665
Effect of expected credit loss on cash and cash equivalents	(8,635)	(3,115)
Net increase in cash and cash equivalents	**185,386,399**	**190,188,353**
Cash and cash equivalents at beginning of the year	380,710,201	190,521,848
Cash and cash equivalents at the end of the year	**566,096,600**	**380,710,201**
Cash and cash equivalents at the end of the year comprise		
Cash at bank and in hand	566,096,600	380,710,201

1. General information

Sova Capital Limited is a private limited company incorporated and domiciled in the UK with its Registered Office at 12th Floor, 88 Wood Street, London, EC2V 7RS. The Company is principally engaged in financial services activities.

2. Accounting policies

2.1 Basis of preparation of the consolidated financial statements

These consolidated financial statements of Sova Capital Limited (SCL, the "Company") and its subsidiaries (together referred to as the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Subsidiaries are fully consolidated by the Group from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of subsidiaries are prepared for the same period as the parent, consistently applying accounting policies for all companies within the Group. All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions, and dividends are eliminated in full.

The consolidated financial statements are presented in US dollars, which is also the Group's functional currency. The amounts are rounded off to the nearest US dollar.

The consolidated financial statements have been prepared on a going concern basis on a historical cost basis, except for the following items which are fair valued:

- Non-trading securities at fair value through other comprehensive income
- Trading and non-trading securities at fair value through profit and loss (FVTPL)
- Derivative financial instruments and related variation margin deposits
- Obligations to deliver securities

On 24th of July 2019 as a result of simplification of the ownership structure the Company's shares were sold from the previous owner, Despacio Associates Limited, to Blendiser Corporation Ltd, a company registered in Cyprus. Whilst the Company's ultimate shareholders remained unchanged, a number of the holding companies between them and Sova Capital Limited were removed. The Group's ultimate beneficial owner is Avdeev Roman Ivanovich (90.1%).

The consolidated financial statements provide comparative information for the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period when there is a retrospective restatement, transitional adjustment or a reclassification of items in the financial statements (Note 30).

The Group has not applied a new IFRS that has been issued but is not yet effective.

2. Accounting policies (continued)

2.2 Summary of accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 4.

Fair value measurement

The Group measures financial instruments, such as trading and non-trading securities, derivatives at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transactions to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability.
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Financial assets

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and cost.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss; and;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises the deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Date of recognition

Financial assets and liabilities are carried in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group recognises regular purchases and disposals of financial assets and liabilities by the trade date.

Following the initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost (AC) and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), resulting in an accounting loss being recognised immediately after the asset is initially recognised.

Classification and subsequent measurement – measurement categories

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on:

- the Group’s business model for managing the asset; and
- the cash flow characteristics of the asset.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Classification and subsequent measurement – business model

The business model reflects how the Group manages the assets in order to generate cash flows –whether the Group's objective is:

i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"); or
ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell"); and
iii) if neither of i) and ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL. This business model will include: assets held for trading, assets measured and evaluated on FV basis, and assets that failed the solely payments of principal and interest (SPPI) test.

The business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (the SPPI test). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature.

In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. However, if the contractual terms of the asset are modified, the Group considers if the contractual cash flows continue to consistent with a basic lending arrangement in assessing whether the modification is substantial.

Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Impairment – credit loss allowance for ECL

The Group assesses on a forward-looking basis the ECL for debt instruments measured at AC and FVOCI and for the exposure arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees (where those component can be separated from the loan), a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, an allowance for ECL is recognised in profit or loss and affects fair value gains or losses recognised in OCI rather than the carrying amount of those instruments.

The Group applies a "three stage" model for impairment in accordance with IFRS 9, based on changes in credit quality since initial recognition:

i) A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months (12 month ECL).

ii) If the Group identifies a significant increase in credit risk (SICR) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis (lifetime ECL).

iii) If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL.

For financial assets that are purchased or originated credit-impaired (POCI), the ECL is always measured as a lifetime ECL.

Note 3 provides more information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporate forward-looking information in the ECL models.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among others, the following factors: any new contractual terms that substantially affects the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, insertion of collateral or credit enhancement that significantly affect the credit risk associated with the asset, or significant extension of the loan when the borrower is in financial difficulty.

If the modified terms are substantially different so that the rights to cash flows from the original asset are deemed to have expired, the Group derecognises the original financial asset and recognises a new asset at fair value. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new asset meets the SPPI criterion.

In a situation where the renegotiation was driven by the financial difficulties of the debtor and inability to make the originally agreed payments, the Group assesses whether the modified asset is deemed to be credit-impaired at initial recognition. Difference in the carrying amounts are recognised in the profit or loss for the period. If the terms of the modified asset are not substantially different, the modification does not result in derecognition. The Group recalculates the gross carrying amount based on the revised cash flows, by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in the profit or loss for the period.

Derecognition (other than through a substantial modification)

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised in the consolidated statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained all the risks and rewards of the asset, but has transferred control of the asset.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Financial liabilities

Classification and subsequent measurement – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for:

- financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition; and
- financial guarantee contracts and loan commitments.

Modification

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition (other than through a substantial modification)

A financial liability is derecognised when the obligation is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Cash and cash equivalents are carried at AC as: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

In the consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Sale and repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in the case that the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions and other customers. The consideration paid for securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions and other customers. Securities purchased under reverse repo are not recognised in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest method.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income includes investments in debt securities.

Debt securities that are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the fair value of these investments are recognised in OCI and any impairment amount determined based on the expected loss model is recognised in profit or loss for the year. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Loans to customers

Loans to customers are recorded when the Group advances money to customers for trading securities and derivatives. Based on the business model and the cash flow characteristics, the Group classifies loans to customers into one of the following measurement categories:

- AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI, and that are not designated at FVTPL, are measured at AC; or
- FVTPL: loans that do not meet the criteria for AC or FVOCI are measured at FVTPL (mandatory FVTPL).

Impairment of the loans measured at AC is determined based on forward-looking ECL model.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Other financial assets at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Financial assets are classified into this category only when (a) the classification eliminates or significantly reduces the mismatch which would otherwise arise from measuring assets or liabilities or recognising gains and losses from them on different bases; (b) management over a group of financial assets, liabilities or both is measured at fair value; (c) the financial instrument contains one or more embedded derivatives which significantly modify the cash flows under the contract, which leads to failing the SPPI test.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liability when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/losses) from derivative financial instruments, securities, foreign currencies and other derivatives, depending on the nature of the instrument.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Certain derivative instruments embedded in financial liabilities and other non-financial contracts are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Derivatives embedded in other financial liabilities are treated as separate derivatives and recorded at fair value if their economic characteristics and risk are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value in the trading portfolio, with changes in fair value recognised in the consolidated income statement.

Brokerage accounts

Brokerage accounts are non-derivative liabilities to customers and are carried at AC.

Financial liabilities at fair value through profit or loss

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

Current and deferred taxation

The tax expense or credit represents the sum of the tax currently payable or recoverable and the deferred tax charge or credit for the period. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income and directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The tax currently payable or recoverable is based on taxable profit or loss for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes Items of income or expenditure that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or the Initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the consolidated income statement, except where It relates to Items credited or charged directly to other comprehensive income or equity, in which case the deferred tax Is also dealt with In other comprehensive Income or equity.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets and goodwill line. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Intangible assets

Intangible assets include software, licenses and trademarks.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is charged using the straight line method.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end. Indefinite-lived intangible assets are tested for impairment annually as of 31 December, and whenever circumstances indicate that their carrying amount may be impaired, either individually or at the cash-generating unit level.

Property, plant and equipment

Property, plant and equipment other than the freehold investment property are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operation in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method.

Depreciation is provided on the following basis:

- Leasehold improvements - 20% per annum; and
- Fixtures, fittings and equipment - 33 to 75% per annum.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

Equipment which does not exceed the Group’s minimum capitalization limit ($500) are expensed when incurred as well as costs of minor repairs and day-to-day maintenance.

Right-of-use assets and lease liabilities

According to new IFRS 16 Leases (endorsed for use in the European Union on 31 October 2017) from 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the right-of-use asset's useful life and the lease term on a straight-line basis.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Right-of-use assets are disclosed within property, plant and equipment and right-of-use assets line of the consolidated statement of financial position, lease liabilities are disclosed within other liabilities line of the consolidated statement of financial position. Finance cost is disclosed within other interest expense line of the consolidated income statement, depreciation of right-of-use assets is disclosed within depreciation of property, plant and equipment and right-of-use assets line of the consolidated income statement. Cash outflow for lease liabilities is disclosed within cash flows from operating activities of the consolidated statement of cash flows.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable under cancellable and non-cancellable operating leases;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Foreign currency translation

The Group's functional and presentational currency is US dollar (USD).

Monetary assets and monetary liabilities in foreign currencies are translated into US dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into US dollars at exchange rates prevailing at the date of transactions. Any gains or losses arising on translation are taken directly to the consolidated income statement.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Non-monetary items denominated in foreign currencies that are stated at historical cost are translated into US dollars at the exchange rate ruling at the date of the transaction.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into US dollars at foreign exchange rates ruling at the dates when the fair values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in the consolidated income statement.

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the consolidated income statement when they fall due. Amounts not paid are shown in accruals as a liability in the consolidated statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Other assets and liabilities

Other assets include receivables on unsettled trades, cash margin receivable on repurchase agreements, dividends and coupon receivables, guarantee deposit, prepayments and advances to customers and suppliers. Other assets are measured at amortised cost or at fair value through profit or loss depending on business model and cash flow characteristics. Credit loss allowance recognised for financial assets at amortised cost based on forward looking model.

Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost expect for variation margin deposit on derivatives which is measured at fair value through profit and loss.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium in equity.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

The nature of other components of equity is as follows:

Share premium

Amount subscribed for share capital in excess of nominal value.

Financial assets at FVOCI reserve

Gains and losses arising on financial assets are measured at fair value through other comprehensive income (FVOCI).

Foreign currency translation reserve

Gains and losses arising on retranslating operations into USD at date of functional currency change and foreign exchange differences arising on translation of Group's foreign operations into parent functional currency (USD).

Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Recognition of income and expenses is as follows:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or FVOCI, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial Instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective Interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC (net of the ECL provision); and
- financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee Income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

When control of a good or service is transferred over time, if the customer simultaneously receives and consumes the benefits provided by the Group's performance, the Group satisfies the performance obligation and recognises revenue over time. These fees include commission income and asset management, custody and other management and advisory fees.

Fee income earned at a point in time

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

For all fee types, where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

2. Accounting policies (continued)

2.2 Summary of accounting policies (continued)

Profit and losses from proprietary trading

Profits and losses resulting from the purchase and sale of securities, foreign currencies and derivatives as well as the revaluation of financial instruments are recognised as trading gains or losses on a trade-date basis, including related transaction costs but excluding the associated interest.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

3. Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments

Where fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgement is required in establishing fair values.

ECL measurement

Calculation and measurement of ECLs is an area of significant judgement, and implies methodology, models and data inputs. The following components of ECL calculation have the major impact on credit loss allowance for ECLs: default definition, SICR, PD, EAD, LGD, macro models and scenario analysis for credit impaired loans. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

3. Critical accounting estimates and judgements (continued)

Determining business model and applying SPPI test

In determining the appropriate measurement category for debt financial instruments, the Group applies two assessments: the business model assessment for managing the assets and the SPPI test based on contractual cash flows characteristics on initial recognition. The business model assessment is determined on a certain level of aggregation and the Group was required to apply judgement to determine the level at which business model condition is applied.

Write-off policy

Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and concluded that there is no reasonable expectation of recovery.

Determining the cash flows for which there is no reasonable expectation of recovery requires judgement.

4. Adoption of new or revised standards and interpretations

Adoption of IFRS 16 Leases (endorsed for use in the European Union on 31 October 2017)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

On adoption the Group decided to use the modified retrospective method, without restatement of comparatives. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rates as at 1 January 2019 (4.31% and 9.05% for London and Moscow offices lease liabilities respectively). The associated right-of-use assets were measured at the amount equal to the lease liability adjusted for amounts of prepayments and accruals recognised in the consolidated statement of financial position immediately before the date of initial application.

The Group recognised a right-of-use asset in amount of $7,110,039 against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease payments to this liability is as follows:

	As at 1 January 2019
	$
Lease commitments under IAS 17	8,498,106
Future lease payments under IFRS 16	8,498,106
Effect of discounting	(1,314,976)
Lease liability under IFRS 16	7,183,130
Amount of prepayments and accruals	(73,091)
Right-of-use under IFRS 16	7,110,039

5. Intangible assets and goodwill

Intangible assets and goodwill comprise:

	Software Licenses	Trademarks	Goodwill	Total
Cost	**$**	**$**	**$**	**$**
At 1 January 2019	707,880	–	–	**707,880**
Additions	33,533	16,000	–	**49,533**
Acquisition through business combinations	8,098	–	675,807	**694,045**
Currency translation differences	121	–	10,140	**10,261**
At 31 December 2019	**749,632**	**16,000**	**685,947**	**1,451,579**
Amortisation				
At 1 January 2019	(299,847)	–	–	**(299,847)**
Charge for the year	(137,855)	–	–	**(137,855)**
Currency translation differences	(20)	–	–	**(20)**
At 31 December 2019	**(437,722)**	**–**	**–**	**(437,722)**
Net book value				
At 31 December 2019	**311,910**	**16,000**	**685,947**	**1,013,857**
At 31 December 2018	408,033	–	–	408,033

Trademarks are represented by Group's rights, title and interests in "Sova" trademarks, trademark applications and logo. Since all of these assets represent Group's brand and economically exist for as long as the underlying business, i.e. beyond the foreseeable horizon, they are accounted as assets with indefinite useful lives.

In 2019, the Group recognised goodwill in the amount of USD 675,807 which arose on acquisition of a subsidiary (Note 27).

As of 31 December 2019, no signs of goodwill or trademark impairment were revealed.

6. Property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets comprise:

	Leasehold Improvements	Fixtures, fittings and equipment	Right-of-use assets	Total
Cost	$	$	$	$
At 1 January 2019	3,583,820	12,416,130	–	**15,999,950**
Effect of initial application of IFRS 16	–	–	7,110,039	**7,110,038**
Additions	–	362,425	–	**362,425**
Acquisition through business combinations	–	88,605	–	**88,605**
Disposals	(22,426)	(138,615)	–	**(161,041)**
Currency translation differences	–	1,329	–	**1,330**
At 31 December 2019	**3,561,394**	**12,729,874**	**7,110,039**	**23,401,307**
Depreciation				
At 1 January 2019	(2,853,321)	(12,030,988)	–	**(14,884,309)**
Charge for the year	(165,266)	(226,432)	(1,419,407)	**(1,811,105)**
Disposals	3,799	122,159	–	**125,958**
Currency translation differences	–	(36)	–	**(36)**
At 31 December 2019	**(3,014,788)**	**(12,135,297)**	**(1,419,407)**	**(16,569,492)**
Net book value				
At 31 December 2019	**546,606**	**594,577**	**5,690,632**	**6,831,815**
At 31 December 2018	730,499	385,142	–	1,115,641

Right-of-use assets.

The Group leases office premises in London and Moscow. Until 31 December 2018 leases of premises and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

Interest expense on lease liabilities for the year ended 31 December 2019 comprised $475 674.

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2019 $	31 December 2018 Restated $
Amounts on brokerage accounts	554,695,184	365,111,206
Settlement and correspondent accounts with banks	9,726,354	13,839,344
Amounts at stock exchanges' clearing houses	1,681,029	1,774,579
Cash on hand	560	234
Credit loss allowance	(6,527)	(15,162)
Total cash and cash equivalents	**566,096,600**	**380,710,201**

Amounts on brokerage accounts represent the Group's balances on accounts with brokerage companies, which the Group transferred under brokerage services agreements to enter into securities and futures contracts, and meet the definition of cash and cash equivalents.

Settlement and correspondent accounts with banks represent balances with different credit institutions used for settlement operations.

Amounts with stock exchanges' clearing houses represent the Group's unrestricted cash balances on stock exchanges' accounts.

Cash on hand represents cash kept on hand by authorised officers as a convenience for making small payments on behalf of the Group.

At the balance sheet date there were deposits for clients, not included in the balance sheet, which were held in segregated client bank accounts according to CASS rules amounting to $23,098,018 ($29,396,091 in 2018).

7. Cash and cash equivalents (continued)

The tables below disclose the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019 and 31 December 2018. Credit quality in the tables below is based on the scale developed internally by the Group. The carrying amount of cash and cash equivalents below also represents the Group's maximum exposure to credit risk on these assets:

	31 December 2019			
	Amounts on brokerage accounts	Settlement and correspondent accounts with banks	Amounts at stock exchanges' clearing houses	Total
	$	$	$	$
- Excellent	363,534,376	–	1,085,744	364,620,120
- Good	174,385,438	–	568,976	174,954,414
- Satisfactory	16,775,370	9,726,354	26,309	26,528,033
Gross carrying amount	**554,695,184**	**9,726,354**	**1,681,029**	**566,102,567**
Credit loss allowance	(5,938)	(577)	(12)	(6,527)
Carrying amount of cash and cash equivalents, excluding cash on hand	**554,689,246**	**9,725,777**	**1,681,017**	**566,096,040**

	31 December 2018 Restated			
	Amounts on brokerage accounts	Settlement and correspondent accounts with banks	Amounts at stock exchanges' clearing houses	Total
	$	$	$	$
- Excellent	253,276,516	3,324,486	1,376,054	257,977,056
- Good	35,719,650	–	375,504	36,095,154
- Satisfactory	76,115,040	10,514,858	23,021	86,652,919
Gross carrying amount	**365,111,206**	**13,839,344**	**1,774,579**	**380,725,129**
Credit loss allowance	(14,443)	(708)	(11)	(15,162)
Carrying amount of cash and cash equivalents, excluding cash on hand	365,096,763	13,838,636	1,774,568	380,709,967

7. Cash and cash equivalents (continued)

For the purpose of ECL measurement cash and cash equivalent balances are included in Stage 1. Refer to Note 24 for the ECL measurement approach. Movements in the cash and cash equivalents credit loss allowance for the years ended 31 December 2019 and 31 December 2018 are as follows:

	Stage 1 (12-months ECL)	
	2019	**2018**
	$	$
At 1 January	15,162	18,277
Reverse during the period	(8,635)	(3,115)
At 31 December	**6,527**	**15,162**

There were no movements in gross exposure between the stages during the reporting period.

8. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

Held by the Group	**31 December 2019 $**	**31 December 2018 $**
Trading debt securities		
Eurobonds of foreign governments	27,998,919	10,782,697
Bonds of foreign governments	46,801,362	–
Corporate Eurobonds	20,266,099	27,378,935
Corporate bonds	45,308,927	–
Total trading debt securities	**140,375,307**	**38,161,632**
Trading equity securities		
Corporate shares	74,375,377	51,455,821
Total trading equity securities	**74,375,377**	**51,455,821**
Non-trading equity securities		
Corporate shares	140,364	7,954,502
Total non-trading equity securities	**140,364**	**7,954,502**
Derivative financial instruments	484,285,561	252,294,261
Total derivative financial instruments	**484,285,561**	**252,294,261**
Total financial assets at fair value through profit or loss held by the Group	**699,176,609**	**349,866,216**

8. Financial assets at fair value through profit or loss (continued)

Pledged under repurchase agreements	31 December 2019 $	31 December 2018 $
Trading debt securities		
Eurobonds of foreign governments	43,732,404	54,757,653
Corporate Eurobonds	58,544,930	135,223,250
Corporate bonds	7,161,950	–
Total trading debt securities	**109,439,284**	**189,980,903**
Trading equity securities		
Corporate shares	116,255,495	187,695,297
Total trading equity securities	**116,255,495**	**187,695,297**
Total financial assets at fair value through profit or loss pledged under repurchase agreement	**225,694,779**	**377,676,200**

As of 31 December 2019, the Group attracted funds collateralised by trading securities totaling $184,774,200 (31 December 2018: $302,717,097) under repurchase agreements with legal entities recorded as amounts due to credit institution and other customers (Note 13).

Analysis of debt financial assets at fair value through profit or loss by credit quality as of 31 December 2019 is as follows:

	Investment grade $	Sub- investment grade $	Total $
Eurobonds of foreign governments	27,659,917	44,071,406	**71,731,323**
Bonds of foreign governments	46,801,362	–	**46,801,362**
Corporate Eurobonds	33,469,136	45,341,893	**78,811,029**
Corporate bonds	6,422,804	46,048,073	**52,470,877**
	114,353,219	**135,461,372**	**249,814,591**

Analysis of debt financial assets at fair value through profit or loss by credit quality as of 31 December 2018 is as follows:

	Investment grade $	Sub- investment grade $	Total $
Eurobonds of foreign governments	38,527,369	27,012,981	**65,540,350**
Corporate Eurobonds	87,666,541	74,935,644	**162,602,185**
	126,193,910	**101,948,625**	**228,142,535**

The ratings in the tables above are determined based on the rating scales of international rating agencies.

8. Financial assets at fair value through profit or loss (continued)

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities in the consolidated financial statements of the Group.

	Fair value of assets 31 December 2019 $	Fair value of liabilities 31 December 2019 $	Fair value of assets 31 December 2018 $	Fair value of liabilities 31 December 2018 $
Forwards and futures contracts	462,976,910	(99,212,197)	224,104,243	(33,980,142)
Swaps	7,950,364	(9,879,583)	462,927	(743,114)
Options	13,358,287	(24,884,855)	27,727,091	(11,729,072)
	484,285,561	**(133,976,635)**	**252,294,261**	**(46,452,328)**

The total nominal value of derivative assets held at 31 December 2019 was $3,309,758,518 ($2,051,612,939 in 2018) and the total nominal value of derivative liabilities held at 31 December 2019 was $4,144,609,285 ($1,471,601,980 in 2018).

Forwards and futures are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-countermarket. Futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps are over-the-counter derivative contracts between two parties exchanging a sequence of cash flows with another at a predetermined rate in the future period mutually agreed between them.

Options are derivative contracts that give its owner the right to buy or sell a specified financial instrument at an agreed-upon price within a certain time period.

9. Amounts due from credit institutions and other customers

Amounts due from credit institutions and other customers comprise

	31 December 2019 $	31 December 2018 $
Reverse repurchase agreements	1,417,838,021	1,303,652,429
Client margin lending	53,472,225	47,071,696
Loans to customers	28,784,241	3,517,111
Credit loss allowance	(67,810)	(5,843)
Total amounts due from credit institutions and other customers	**1,500,026,677**	**1,354,235,393**

Reverse repurchase agreements represent the Group's securities reverse repurchase transactions. From the economic standpoint, reverse repurchase is similar to issuing loans collateralised by securities.

Client margin lending represents amounts related to collateralised transactions with and for clients through margin financing. Previously these amounts were recognised within reverse repurchase agreements line.

Loans to customers represent loans issued by the Group to legal entities for trading in financial instruments.

The following tables contain an analysis of due from credit institutions and other customers' balances by credit quality at 31 December 2019 and 31 December 2018 based on credit risk grades and discloses due from credit institutions and other customers balances by three stages for the purpose of ECL measurement. The carrying amount of due from credit institutions and other customers below also represents the Group's maximum exposure to credit risk on these assets:

	31 December 2019		
	Stage 1 (12-months ECL) $	Stage 2 (Lifetime ECL) $	Total $
Amounts due from credit institutions and other customers			
-Excellent	7,573	–	7,573
-Good	2,951,184	–	2,951,184
-Satisfactory	693,650,786	–	693,650,786
-Special monitoring	13,444,723	790,040,221	803,484,944
Gross carrying amount	**710,054,266**	**790,040,221**	**1,500,094,487**
Credit loss allowance	(65,982)	(1,828)	(67,810)
Total carrying amount	**709,988,284**	**790,038,393**	**1,500,026,677**

9. Amounts due from credit institutions and other customers (continued)

	31 December 2018		
	Stage 1 (12-months ECL)	Stage 2 (Lifetime ECL)	Total
	$	$	$
Amounts due from credit institutions and other customers			
-Excellent	6,115,228	–	6,115,228
-Good	174	–	174
-Satisfactory	230,273,869	–	230,273,869
-Special monitoring	19,466,673	1,098,385,292	1,117,851,965
Gross carrying amount	**255,855,944**	**1,098,385,292**	**1,354,241,236**
Credit loss allowance	(1,149)	(4,694)	(5,843)
Total carrying amount	**255,854,795**	**1,098,380,598**	**1,354,235,393**

The following tables explain the changes in the credit loss allowance and gross carrying amount for due from credit institutions and other customers' balances between the beginning and the end of the years.

	Credit loss allowance			Gross carrying amount		
	Stage 1 (12-months ECL)	Stage 2 (Lifetime ECL)	Total	Stage 1 (12-months ECL)	Stage 2 (Lifetime ECL)	Total
	$	$	$	$	$	$
Amounts due from credit institutions and other customers						
At 1 January 2019	1,150	4,693	5,843	255,855,944	1,098,385,292	1,354,241,236
New originated or purchased	65,982	1,828	67,810	710,054,266	790,040,221	1,500,094,487
Derecognised during the period	(1,150)	(4,693)	(5,843)	(255,855,944)	(1,098,385,292)	(1,354,241,236)
Total movements with impact on credit loss allowance charge for the period	64,832	(2,865)	61,967	454,198,322	(308,345,071)	145,853,251
At 31 December 2019	**65,982**	**1,828**	**67,810**	**710,054,266**	**790,040,221**	**1,500,094,487**

9. Amounts due from credit institutions and other customers (continued)

	Credit loss allowance			Gross carrying amount		
	Stage 1 (12-months ECL)	**Stage 2 (Lifetime ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (Lifetime ECL)**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Amounts due from credit institutions and other customers						
At 1 January 2018	284,833	747	285,580	218,553,438	241,325	218,794,763
New originated or purchased	1,150	4,693	5,843	255,855,945	1,098,385,291	1,354,241,236
Derecognised during the period	(284,833)	(747)	(285,580)	(218,553,438)	(241,325)	(218,794,763)
Total movements with impact on credit loss allowance charge for the period	(283,683)	3,946	(279,737)	37,302,507	1,098,143,966	1,135,446,473
At 31 December 2018	**1,150**	**4,693**	**5,843**	**255,855,945**	**1,098,385,291**	**1,354,241,236**

Collateral and other credit enhancements

The amount and type of collateral required by the Group depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main type of collateral obtained for reserve repurchase transactions are securities.

Reverse repurchase agreements

The loans issued under reverse repurchase agreements and the value of securities received as collateral are as follows:

	Carrying amount of funds transferred 2019	**Fair value of collateral 2019**	**Carrying amount of funds transferred 2018**	**Fair value of collateral 2018**
	$	**$**	**$**	**$**
Corporate shares	985,900,532	1,400,379,668	911,152,658	1,284,372,249
Corporate Eurobonds	271,186,473	381,762,010	346,293,230	437,555,213
Corporate bonds	124,220,227	182,147,058	2,817,869	3,311,955
Bonds of foreign governments	33,005,776	36,262,532	–	–
Eurobonds of foreign governments	3,525,013	4,410,775	43,388,672	53,082,101
Total reverse repurchase agreements	**1,417,838,021**	**2,004,962,043**	**1,303,652,429**	**1,778,321,518**

9. Amounts due from credit institutions and other customers (continued)

Concentration of amounts due from credit institutions and other customers

Amounts due have been extended to the following categories of customers:

	31 December 2019 $	31 December 2018 $
Financial institutions	17,173,462	22,155,228
Investment companies	1,467,744,807	1,299,209,005
Corporates	–	18,217,331
Individuals	15,176,218	14,659,672
Total amounts due from credit institutions and other customers	**1,500,094,487**	**1,354,241,236**

10. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise:

	31 December 2019 $	31 December 2018 $
Non-trading debt securities		
Bonds of foreign governments	35,600,905	35,236,100
Total financial assets at fair value through other comprehensive income	**35,600,905**	**35,236,100**

Bonds of foreign governments are represented by treasury bonds issued by the United States Department of the Treasury denominated in US dollars. As of 31 December 2019 these securities were pledged under direct repurchase agreement. The Group attracted funds totaling $34,848,734 recorded as amounts due to credit institutions and other customers. As of 31 December 2018 the debt securities at FVOCI were not collateralised.

10. Financial assets at fair value through other comprehensive income (continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019 and 31 December 2018, for which an ECL allowance is recognised, based on credit risk grades.

	Stage 1 (12months ECL)	
	31 December 2019 $	31 December 2018 $
Bonds of foreign governments		
- Excellent	35,600,905	35,236,100
Total financial assets at fair value through other comprehensive income	**35,600,905**	**35,236,100**

The following tables explain the changes in the credit loss allowance and gross carrying amount for debt securities at FVOCI between the beginning and the end of the years.

	Credit loss allowance Stage 1 (12-months ECL) $	Gross carrying amount Stage 1 (12-months ECL) $
Bonds of foreign governments		
At 1 January 2019	2	35,236,100
Other movements	–	364,805
Total movements with impact on credit loss allowance charge for the period	–	364,805
At 31 December 2019	**2**	**35,600,905**

	Credit loss allowance Stage 1 (12-months ECL) $	Gross carrying amount Stage 1 (12-months ECL) $
Bonds of foreign governments		
At 1 January 2018	4	35,041,801
New originated or purchased	2	35,236,100
Derecognised during the period	(4)	(35,041,801)
Total movements with impact on credit loss allowance charge for the period	(2)	194,299
At 31 December 2018	**2**	**35,236,100**

11. Other assets

Other assets comprise:

	31 December 2019 $	31 December 2018 Restated $
Other financial assets at amortised cost		
Receivables on unsettled trades	35,516,863	31,236,807
Cash margin receivable on repurchase agreements	18,111,862	52,479,227
Amounts in course of settlement	2,637,144	12,413,075
Dividends and coupons receivables	1,462,802	2,833,709
Guarantee deposit placed	1,413,804	1,264,751
Settlements under spot deals with foreign currency	43,338	21,702
Less credit loss allowance	(74,462)	(152,268)
Total other financial assets at amortised cost	**59,111,351**	**100,097,003**
Other financial assets at fair value through profit or loss		
Variation margin deposit placed	70,288,978	–
Total other financial assets at fair value through profit or loss	**70,288,978**	**–**
Other non-financial assets		
Prepayments and advances to suppliers	2,680,051	2,355,126
Amounts receivable from customers and clients	2,290,276	–
Other tax and social security recoverable	1,717,635	359,745
Other non-financial assets	13,881	48,122
Total other non-financial assets	**6,701,843**	**2,762,993**
Total other assets	**136,102,172**	**102,859,996**

Receivables on unsettled trades are represented by receivables under purchase/sale of securities and derivatives for which the settlement date has not yet occurred.

Cash margin receivable on repurchase agreements represents receivables on margin transfers made in order to maintain the value of collateral equal to the value of cash paid or received under repurchase agreements.

Guarantee deposit placed represents receivables on cash collateral provided by the Group to secure positions opened at derivative markets.

11. Other assets (continued)

The tables below contain an analysis of the credit risk exposure of other financial assets at amortised cost at 31 December 2019 and 31 December 2018. The carrying amount of other financial assets at amortised cost below also represents the Group's maximum exposure to credit risk on these assets:

	31 December 2019		
	Stage 1 (12-months ECL)	**Stage 2 (Lifetime ECL)**	**Total**
	$	**$**	**$**
Other financial assets at amortised cost			
-Excellent	12,254,118	–	12,254,118
-Good	14,427,514	80,007	14,507,521
-Satisfactory	29,312,298	58,437	29,370,735
-Special monitoring	2,556,225	497,214	3,053,439
Gross carrying amount	**58,550,155**	**635,658**	**59,185,813**
Credit loss allowance	(58,995)	(15,467)	(74,462)
Total carrying amount	**58,491,160**	**620,191**	**59,111,351**

	31 December 2018 Restated		
	Stage 1 (12-months ECL)	**Stage 2 (Lifetime ECL)**	**Total**
	$	**$**	**$**
Other financial assets at amortised cost			
-Excellent	15,292,006	–	15,292,006
-Good	15,478,829	–	15,478,829
-Satisfactory	54,784,947	–	54,784,947
-Special monitoring	3,653,856	11,039,633	14,693,489
Gross carrying amount	**89,209,638**	**11,039,633**	**100,249,271**
Credit loss allowance	(135,227)	(17,041)	(152,268)
Total carrying amount	**89,074,411**	**11,022,592**	**100,097,003**

11. Other assets (continued)

The following tables explain the changes in the credit loss allowance and gross carrying amount for other financial assets at amortised cost under general ECL model between the beginning and the end of the year.

	Credit loss allowance			Gross carrying amount		
	Stage 1 (12-months ECL)	Stage 2 (Lifetime ECL)	Total	Stage 1 (12-months ECL)	Stage 2 (Lifetime ECL)	Total
	$	$	$	$	$	$
Other financial assets at amortised cost						
At 1 January 2019	135,227	17,041	152,268	89,209,633	11,039,638	100,249,271
New originated or purchased	58,995	15,467	74,462	58,550,155	635,658	59,185,813
Derecognised during the period	(135,227)	(17,041)	(152,268)	(89,209,633)	(11,039,638)	(100,249,271)
Total movements with impact on credit loss allowance charge for the period	(76,232)	(1,574)	(77,806)	(30,659,478)	(10,403,980)	(41,063,458)
At 31 December 2019	**58,995**	**15,467**	**74,462**	**58,550,155**	**635,658**	**59,185,813**

	Credit loss allowance			Gross carrying amount		
	Stage 1 (12-months ECL)	Stage 2 (Lifetime ECL)	Total	Stage 1 (12-months ECL)	Stage 2 (Lifetime ECL)	Total
	$	$	$	$	$	$
Other financial assets at amortised cost						
At 1 January 2018	252,704	13,221	265,925	87,495,453	205,508	87,700,961
New originated or purchased	135,227	17,041	152,268	89,209,633	11,039,638	100,249,271
Derecognised during the period	(252,704)	(13,221)	(265,925)	(87,495,453)	(205,508)	(87,700,961)
Total movements with impact on credit loss allowance charge for the period	(117,477)	3,820	(113,657)	1,714,180	10,834,130	12,548,310
At 31 December 2018	**135,227**	**17,041**	**152,268**	**89,209,633**	**11,039,638**	**100,249,271**

12. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise:

	31 December 2019 $	31 December 2018 $
Obligations to deliver securities	98,296,457	118,785,882
Derivative financial liabilities	133,976,635	46,452,329
Total financial liabilities at fair value through profit or loss	**232,273,092**	**165,238,211**

Obligations to deliver securities are represented by a short position in stock exchange transactions with securities.

Derivative financial liabilities are mainly represented by options and forwards for underlying assets, including foreign currencies or securities.

All financial liabilities at fair value through profit or loss are held for trading.

13. Amounts due to credit institutions and other customers

Amounts due to credit institutions and other customers comprise:

	31 December 2019 $	31 December 2018 Restated $
Repurchase agreements	1,619,105,331	1,323,640,447
Brokerage accounts	215,247,576	155,562,145
Client margin funding	59,350,861	25,980,815
Total amounts due to credit institutions and other customers	**1,893,703,768**	**1,505,183,407**

Brokerage accounts are non-derivative liabilities to customers on deposited funds with the Group.

Client margin funding represents amounts related to collateralised transactions with and for clients through margin financing.

Due to the short-term nature of these financial liabilities, the carrying values of amounts due to credit institutions and other customers approximate fair value. The fair value of the collateral amount pertaining to repurchase agreements was $1,939,302,338 ($1,561,786,671 in 2018).

14. Other liabilities

Other liabilities comprise:

	31 December 2019 $	31 December 2018 $
Other financial liabilities at amortised cost		
Guarantee deposit received	157,052,213	105,635,055
Payables on unsettled trades	53,484,881	23,770,018
Cash margin payables on repurchase agreements	25,231,600	2,764,376
Personnel compensation payable	8,536,059	7,003,609
Current lease liabilities	1,371,409	–
Dividends and coupons payable	1,354,635	2,439,415
Settlements with suppliers	589,013	725,438
Liabilities under spot deals with foreign currency	152,183	12,912
Total other financial liabilities at amortised cost	**247,771,993**	**142,350,823**
Other financial liabilities at fair value through profit or loss		
Variation margin deposit received	380,621,425	400,571,021
Total other financial liabilities at fair value through profit or loss	**380,621,425**	**400,571,021**
Other non-financial liabilities		
Provision for contingencies and commitments	2,198,685	2,448,611
Other taxation and social security	815,135	304,624
Total other non-financial liabilities	**3,013,820**	**2,753,235**
Total other liabilities	**631,407,238**	**545,675,079**

Guarantee deposits received represents payables on cash collateral provided to the Group to secure positions opened on derivative markets.

Payables on unsettled trades are represented by payables under purchase/sale of securities and derivatives for which the settlement date has not yet occurred.

Cash margin payables on repurchase agreements represent payables on margin transfers made in order to maintain the value of collateral equal to the value of cash paid or received under repurchase agreements.

At 31 December 2018 a provision in the amount of $2,448,611 had been made in respect of unrecoverable VAT potentially arising from a voluntary self-assessment of the VAT position being conducted by the firm.

14. Other liabilities (continued)

During the year 2019 the firm continued the health-check work in respect of its VAT affairs. As a result of the robust and comprehensive review undertaken by the firm during the year 2019, the firm's VAT position has been further defined and the amount of VAT provision has been changed from $2,448,611 (as at 31 December 2018) to $2,198,685 (as at 31 December 2019).

Movement in the provision for contingencies and commitments during the year ended 31 December 2019 is as follows:

	Provision for contingencies and commitments
	$
At 1 January 2019	2,448,611
Provision release for the year	(249,926)
At 31 December 2019	**2,198,685**

15. Share capital

	31 December 2019	**31 December 2018**
	$	**$**
Allotted, called up and fully paid		
209,894,111 ordinary shares of £1 each	346,031,694	346,031,694

As of 31 December 2019, all the ordinary shares carried one vote each. The amount of dividends is determined and approved at the annual general shareholders' meeting of the Group.

16. Commission income

Net commission income comprises the following:

	2019	**2018**
	$	**$**
Commission income		
Commission income from brokerage and other services	19,823,187	16,655,260
Total commission income	**19,823,187**	**16,655,260**
Commission expenses		
Commission expenses on securities operations	(18,237,975)	(16,022,309)
Total commission expenses	**(18,237,975)**	**(16,022,309)**
Total commission income, net	**1,585,212**	**632,951**

16. Commission income (continued)

The table below disaggregates commission income for the years by type of the services provided

	2019	2018
	$	$
Brokerage commissions	12,990,757	11,620,409
Commission for marginal trades	3,658,476	3,438,552
Commissions on management services	1,633,550	–
Commissions on FX transactions	462,608	588,877
Commissions on other services	1,077,796	1,007,422
Total commission income	**19,823,187**	**16,655,260**

17. Gains and losses from operations with financial instruments

Gains and losses from operations with financial instruments comprise the following:

	2019	2018
	$	$
Net gains/(losses) from trading securities		
- realised gains	92,384,231	5,749,679
- unrealised gains/(losses)	10,010,990	(14,587,581)
Total net gains/(losses) from trading securities	**102,395,221**	**(8,837,902)**
Net gains/(losses) from foreign currencies		
- dealing/hedging	12,046,202	869,271
- translation differences	(4,730,063)	(13,116,925)
Total net gains/(losses) from foreign currencies	**7,316,139**	**(12,247,654)**
Net (losses)/gains from derivative instruments		
- derivative financial instruments	(30,643,930)	69,503,685
Total net (losses)/gains from derivative instruments	**(30,643,930)**	**69,503,685**
Total net gains from financial instruments	**79,067,430**	**48,418,129**

18. Profit before tax

The profit before tax is stated after charging:

	2019 $	2018 $
Dividends received included in other income	7,218,221	4,813,831
Depreciation of tangible fixed assets including right-of-use assets	(1,811,105)	(819,925)
Amortisation of intangible assets	(137,855)	(165,047)
Operating lease rentals not included in lease liabilities under IFRS 16	(856,573)	(2,940,531)
Net reverse/(charge) for other provisions	249,926	(2,448,611)
Auditors remuneration	(804,810)	(208,000)
Exchange differences	(4,626,092)	(13,116,925)

19. Auditors' remuneration

The Group paid the following amounts to its auditors in respect of the audit of the consolidated financial statements and for other services provided to the Group:

	2019 $	2018 $
Audit of the consolidated financial statements	431,214	127,000
Non-audit services (Category 8)	275,107	27,000
Assurance related regulatory services (Category 2)	51,183	27,000
Fees for interim review (Category 2)	47,306	27,000
	804,810	**208,000**

Assurance related regulatory services relates to the CASS assurance service. Non-audit services relates to special group reporting and in prior year the preparation of the previous year financial statements.

20. Employees

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

	2019 $	2018 $
Wages and salaries	23,100,192	19,123,362
Social security costs	5,776,740	3,013,420
Other staff costs	1,346,965	1,727,041
	30,223,897	**23,863,823**

20. Employees (continued)

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
London office	54	52
Moscow office	184	184
Cyprus office (subsidiary)	9	–
	247	**236**

21. Tax expense

	2019 $	2018 $
Corporation tax		
Current tax on profits for the year	21,483,217	6,901,061
Total current tax	**21,483,217**	**6,901,061**
Deferred tax		
Origination and reversal of timing differences	349,987	(324,500)
Changes in the applicable tax rates	(97,873)	–
Total deferred tax	**252,114**	**(324,500)**
Taxation on profit	**21,735,331**	**6,576,561**

Factors affecting tax charge for the year

The tax assessed for the year is higher than (lower than in 2018) the standard rate of corporation tax in the UK of 19% (19% in 2018). The UK government decided this rate will remain at 19%, reversing a 2016 budget commitment to reduce the rate to 17% from 1 April 2020..

21. Tax expense (continued)

The differences are explained below:

	2019 $	2018 $
Profit on ordinary activities before tax	87,209,861	40,768,255
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (19% in 2018)	16,569,874	7,745,969
Effects of:		
Expenses not deductible for tax purposes	723,561	105,806
Profit of subsidiaries in different jurisdictions	(261,189)	–
Bank surcharge	4,555,942	850,774
Adjustments to tax charge in respect of prior periods	245,016	(2,131,822)
Changes in the applicable tax rates	(97,873)	–
Tax exchange difference arising on movement between opening and closing spot rates	–	5,834
Total tax charge for the year	**21,735,331**	**6,576,561**

There were no factors that may affect future tax charges.

22. Deferred taxation

Deferred tax	2019 $	2018 $
At the beginning of year	1,189,794	768,431
Effect of IFRS 9 transitional adjustment	–	96,863
Business combinations	511,810	–
Charged to the consolidated income statement	(252,114)	324,500
Charged to the consolidated other comprehensive income	(107,286)	–
At the end of year	**1,342,204**	**1,189,794**

The deferred tax asset is made up as follows:

	2019 $	2018 $
Property, plant and equipment and intangible assets	580,592	744,743
Provision for contingencies and commitments	321,346	357,874
Subsidiary's tax losses	511,810	–
FVOCI revaluation	(107,286)	–
Other taxable/deductible temporary differences	(62,131)	87,177
Changes in the applicable tax rates	97,873	–
	1,342,204	**1,189,794**

23. Assets and liabilities at fair value through profit and loss

	Level 1 $	Level 2 $	Level 3 $	Total $
As of 31 December 2019				
Assets measured at fair value				
Securities at fair value through profit or loss	440,445,463	–	140,364	440,585,827
Derivative financial instruments	5,044,351	479,241,210	–	484,285,561
Securities at fair value through other comprehensive income	35,600,905	–	–	35,600,905
Other financial assets	–	70,288,978	–	70,288,978
Liabilities measured at fair value				
Obligation to deliver securities	98,296,457	–	–	98,296,457
Derivative financial instruments	4,886,376	129,090,259	–	133,976,635
Other financial liabilities	–	380,621,425	–	380,621,425

	Level 1 $	Level 2 $	Level 3 $	Total $
As of 31 December 2018				
Assets measured at fair value				
Securities at fair value through profit or loss	470,223,029	–	5,025,126	475,248,155
Derivative financial instruments	4,300,179	247,994,082	–	252,294,261
Securities at fair value through other comprehensive income	35,236,100	–	–	35,236,100
Liabilities measured at fair value				
Obligation to deliver securities	118,785,882	–	–	118,785,882
Derivative financial instruments	2,031,947	44,420,382	–	46,452,329
Other financial liabilities	–	400,571,021	–	400,571,021

23. Assets and liabilities at fair value through profit and loss (continued)

Movements in Level 3 financial instruments measured at fair value

	At 1 January 2019 $	Gain/(losses) recorded in income statement $	Purchases $	Sales $	At 31 December 2019 $
Securities at fair value through profit and loss	5,025,126	–	140,364	(5,025,126)	140,364
Total level 3 assets	5,025,126	–	140,364	(5,025,126)	140,364
Total level3	**5,025,126**	**–**	**140,364**	**(5,025,126)**	**140,364**

	At 1 January 2018 $	Gain/(losses) recorded in income statement $	Purchases $	Sales $	At 31 December 2018 $
Securities at fair value through profit and loss	–	–	5,025,126	–	5,025,126
Total level 3 assets	–	–	5,025,126	–	5,025,126
Total level3	–	–	**5,025,126**	–	**5,025,126**

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy in the year ended 31 December 2019 for financial assets and liabilities measured at fair value.

The table below shows the quantitative information about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

31 December 2019	Carrying amount $	Valuation technique	Unobservable inputs
Financial assets at fair value through profit or loss			
Management shares in closed investment funds	140,364	Initial offering price	Future spot foreign currency rate

23. Assets and liabilities at fair value through profit and loss (continued)

31 December 2018	Carrying amount $	Valuation technique	Unobservable inputs
Financial assets at fair value through profit or loss			
Units in closed investment funds	5,025,126	Adjusted value of net assets	Value of underlying asset

Level 3 financial instruments as of 31 December 2019 are represented by management shares, which are non-redeemable and do not have a residual interest in the fund net assets, therefore do not affect the calculation of the net asset value per share.

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

31 December 2019	Carrying amount $	Effect of reasonably possible alternative assumptions $
Securities at fair value through profit and loss	140,364	(14,036)

31 December 2018	Carrying amount $	Effect of reasonably possible alternative assumptions $
Securities at fair value through profit and loss	5,025,126	(65,327)

In order to calculate the effect of alternative assumption for the management shares in level 3 instruments as of 31 December 2019, the Group adjusted the foreign currency rate by 10%, as such a change is seen by the Group as a possible alternative change based on the volatility observed both on a historical basis and market expectations for future movement. The effect of reasonably possible alternative assumptions would have entailed a decrease in the carrying amount by $14,036.

In order to calculate the effect of alternative assumptions for the units in level 3 instruments as of 31 December 2018, the Group adjusted the discount rate by 1.3% as such a change is seen by the Group as a possible alternative change based on indicators for other items with similar parameters. The effect of reasonably possible alternative assumptions would have entailed a decrease in the carrying amount by $65,327.

24. Risk management

Introduction

Risk of loss arising due to both external and internal factors and processes is inherent in the Group's activities. It is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each trading desk within the Group is accountable for the risk exposures to his or her responsibilities. The Group is exposed to credit risk (including settlement, pre-settlement and concentration risk), market risk (related to trading and non-trading activities), liquidity risk and interest rate risk. The Group is also exposed to operational risk.

The independent risk control process does not include business risks such as changes in the economic environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Group's risk management framework consists of the Board of directors, the Board Risk Compliance Committee (BRCC), the Risk Management and Compliance Committee (RMCC), Chief Risk Officer and the Risk Management department. The framework focuses on the various risk the Group is exposed to. The Chief Risk Officer is a member of the RMCC and consistently attends BRCC meetings.

The Board is responsible for monitoring the implementation of the strategy and for determining the risk appetite by issuance of the relevant risk appetite statement. Senior management are responsible for the development and deployment of the business strategy in line with the approved risk strategy.

The directors meet on a regular basis and discuss current financial positions versus projections for profitability and capital management, business planning and risk management. The directors oversee the Group's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required. The Group follows the standardised approach to market risk and the standard approach to credit risk.

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets.

24. Risk management (continued)

Credit risk management

The estimation of credit risk for risk management purposes involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Counterparty risk

Settlement and pre-settlement

The Group defines counterparty risk as a combination of pre-settlement and settlement risk:

- Pre-settlement risk is defined as a risk that one party of a contract will fail to meet the terms of a contract and default prior to a contract's settlement date, prematurely ending the contract. The type of risk may lead to replacement-costs and a substantial potential future exposure amount.
- Settlement risk is the risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risks can be the risk associated with default at settlement and any timing differences in settlement between the two parties. This type of risk may lead result in a loss equal to cost of replacement of original terms on the transactions or an entire principal amount.

As a significant proportion of the Group's transactions are conducted on the basis of "delivery versus payment", this minimises the risk of exposure to any trading positions. This does not, however, eliminate risk entirely in the combination of circumstances in which the counterparty fails and the value of stock awaiting settlement against payment has changed adversely. To guard against this the Group sets limits for various counterparties and monitors these limits constantly. The limits are also set for the banks and brokers to set the maximum tolerances to mitigate the losses to insolvency.

The Group provides services of trading in exchange traded derivatives, margin trading, securities financing, equities lending and borrowing. Exposure values to clients through the provision of these services are determined using mark to market methods. In all cases where such transactions place the client or the Group at risk, the Group will hold adequate collateral and provisions for netting arrangements. This normally takes the form of a lien over the customer's assets giving a claim on these assets for both existing and future liabilities.

24. Risk management (continued)

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches, an Internal Risk-Based (IRB) rating system for Financial Institutions or risk grades estimated by external international rating agencies (Standard & Poor's, Fitch, Moody's) for other segments. Internal and external credit ratings are mapped on an internally defined master scale.

	Financial institutions		Investment companies		Corporates, Sovereigns
Master scale credit risk grade	**Corresponding internal ratings**	**Corresponding ratings of external international rating agencies (S&P)**	**Corresponding internal ratings**	**Corresponding ratings of external international rating agencies (S&P)**	**Corresponding ratings of external international rating agencies (S&P)**
Excellent	1INV - 3	AAA to BBB	1INV - 3	AAA to BBB-	AAA to BBB-
Good	4 - 8	BBB- to BB-	4 - 8	BB+ to BB-	BB+ to BB-
Satisfactory	9 - 15	B+ to B-	9 - 15	B+ to B-	B+ to B-
Special monitoring	16 - 19	B- to CCC+	16 - 19	B- to CCC	B- to CCC
Default	20	CCC to D	20	CCC- to D	CCC- to D

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- Excellent – strong credit quality with low expected credit risk.
- Good – adequate credit quality with a moderate credit risk.
- Satisfactory – moderate credit quality with a satisfactory credit risk.
- Special monitoring – facilities that require closer monitoring and remedial management.
- Default – facilities in which a default has occurred.

The IRB system is designed internally and ratings are estimated by the Group itself. Various credit-risk estimating techniques are used by the Group depending on the class of the asset. There are two commonly used types of such systems:

- Model-based – In this system, credit risk ratings are assigned by internally developed models with the limited involvement of credit officers. Models include qualitative and quantitative information.
- Expert judgement-based – In this system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated models.

The Group applies IRB systems for measuring credit risk for the following financial assets: Amounts due from credit institutions, financial assets at FVOCI and other financial assets, when counterparty represents Financial Institution segment.

24. Risk management (continued)

The internal rating models are regularly reviewed by the Credit Risk department and updated if necessary.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings are applied for financial assets at FVOCI and other financial assets.

Expected credit loss (ECL) measurement – definitions

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e. the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

An ECL measurement is based on four components used by the Group:

Exposure at Default (EAD) – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Probability of Default (PD) – an estimate of the likelihood of default to occur over a given time period.

Loss Given Default (LGD) – an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Discount Rate – a tool to discount an expected loss from the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For instruments with fixed maturity, the lifetime period is equal to the remaining contractual period.

Lifetime ECL - losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL - the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

Forward looking information - the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

24. Risk management (continued)

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Group considers that 12-month and lifetime CCFs are the same.

Purchased originally credit impaired (POCI) financial assets - financial assets that are credit-impaired upon initial recognition.

Low credit risk financial assets - assets that have a grade above A- defined by external rating agencies or corresponding ratings defined by internal risk models.

Default and credit-impaired assets - an instrument is in default, meaning fully aligned with the definition of credit-impaired, when it meets one or more of the criteria specially defined for each type of assets, among which:

- 0+ DPD for repo deals, margin loans, margin calls and stock lending deals; 5+ DPD for trade receivables; 14+ DPD for cash and cash equivalents;
- default rating in accordance with external rating agenciess;
- default rating in accordance with internal rating model; and
- other default criteria as defined by internal documents, which indicate where counterparty obligations are unlikely to be repaid.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

Significant increase in credit risk (SICR) - the SICR assessment is performed on an individual basis by monitoring the triggers stated below. The criteria used to identify the SICR are monitored and reviewed periodically for appropriateness by the Group’s Risk Management department.

The Group considers a financial instrument to have experienced an SICR when one or more of the following criteria have been met.

For transactions with financial institutions:

- No internal rating as at origination and/or report date; or
- SICR based on relative threshold: decrease of internal rating by three notches, which corresponds to an approximate increase of PD by 2.4 times.

For transactions with all other segments:

- No external rating as at origination and/or report date; or
- SICR based on relative threshold: decrease of external rating by three notches, which corresponds to an approximate increase of PD by 3.7 times.

If there is evidence that the SICR criteria are no longer met, the instrument will be transferred back to Stage 1.

24. Risk management (continued)

ECL measurement – description of estimation techniques

General principle

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1 - a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, loss allowance is based on 12-month ECLs or on remaining contractual life if it is less that 12-months.
- Stage 2 - if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired, loss allowance is based on lifetime ECLs.
- Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Group only recognises the cumulative changes in lifetime expected credit losses.

The Group can carry out two separate approaches for ECL measurement:

- assessment on an individual basis; and
- assessment on a portfolio basis: internal or external ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio.

Principles of assessment on individual basis - ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each instruments, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement of experienced officers from the Credit Risk department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses. The Group performs an assessment on an individual basis for credit-impaired loans.

Principles of assessment on portfolio basis - to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous. Examples of shared characteristics include product type, credit risk rating, geographical region of counterparty.

24. Risk management (continued)

The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below.

$$ECL = LGD_{t_i} \sum_{i=0}^{N-1} (PD_{t_i,t_{i+1}} \frac{EAD_{t_i}}{(1+EIR)^{t_i}})$$

where:

LGD_{t_i}- loss given default in moment t_i
EAD_{t_i}- exposure to default in moment t_i
$PD_{t_i,t_{i+1}}$- probability of default between t_i and t_{i+1}(can't be higher than 100%)
t_i- number of months in the loan's lifetime
EIR- effective interest rate
N- remaining amount of payments.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future period during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Please find below the brief principles of calculating the credit risk parameters.

The EAD for amortising products and financial assets at FVOCI is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data gathered by external rating agencies and adjusted for forward-looking information.
- Lifetime PDs - the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 or Stage 3 exposures. An assessment of a 12-month PD is based on the latest available historic default data gathered by external rating agencies and adjusted for forward-looking information.

24. Risk management (continued)

To calculate Lifetime PD, the Group uses the extrapolation of 12-month PDs based simplified approach based on conditional probability formula.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, his geographical region and based on recovery statistics gathered by external rating agencies.

For instruments secured by cash, guarantee deposits and liquid securities, the Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

ECL measurement for off-balance sheet financial instruments

The ECL measurement of off-balance sheet accounts consists of the same steps described above for the balance sheet exposures and differs with respect to EAD calculation. EAD with respect to off-balance sheet exposures should be calculated in the following way:

$$EAD = ExOff * CCF$$

where:

CCF- credit conversion factor
$ExOff$- amount of credit-related commitments.

CCF for financial guarantees is defined based on statistical analysis of exposure at default or based on expert judgment.

Forward-looking information incorporated in the ECL models. The calculation of ECLs incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECLs.

Expert judgement has been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the IMF and provide the best estimate of the economy over the next year. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have historically had on default rates.

In addition to the base economic scenario, the Group's Risk Management department also provides other possible scenarios along with scenario weightings. The Group also determine positive and negative scenario for economic variables. The scenarios are reassessed at each reporting date. The scenario weightings are determined by an expert judgement, taking into account the range of possible outcomes of which each chosen scenario is representative. Final point in time PD is determined taking into account forward looking adjustment based on base, negative and positive economic scenario.

24. Risk management (continued)

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Backtesting - the Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Group's management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Concentration risk

Credit risk concentrations may include:

- a significant exposure to an individual counterparty or group of counterparties;
- credit exposures to counterparties in the same economic sector or geographic region;
- credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and
- indirect credit exposures arising from the Group's activities (e.g. exposure to a single collateral type or to credit protection provided by a single counterparty).

Concentration risk for Group credit risk purpose is significantly mitigated via the collateral pledge.

Market risk

Market risk is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. The Group undertakes trading activities in various financial instruments. It has exposure in equity, equity derivatives, plain vanilla fixed income instruments, interest rate and exchange rate derivatives, as well as commodity based derivatives. The Group's financial assets at fair value through profit and loss and other types of financial instruments are susceptible to market risk arising from uncertainties about future prices of the investments. Fluctuations in asset prices and values are limited via a number of market risk limits, such as position limits, financial results limits and sensitivities. The Group's risk management framework is aligned with the requirements set by the group risk framework and principles set by the Financial Conduct Authority. The Group's market price risk is managed through setting the market risk limits, stress-testing, hedging and diversification of the investment portfolio.

24. Risk management (continued)

Price risk sensitivity analysis

Trading book instruments (FVTPL):	Book value 2019 $	Book value 2018 $	VAR amount 2019 $	VAR amount 2018 $	VAR as % of book value 2019 %	VAR as % of book value 2018 %
Fixed income instruments	249,814,591	228,142,535	1,306,023	3,747,259	0.52	1.64
Equity and equity base derivative instruments	674,916,433	499,399,881	38,478,505	7,041,447	5.70	1.41
	924,731,024	727,542,416	39,784,528	10,788,706	4.30	1.48

The table below summarises the effect on profit and loss and components of equity in a number of different selected scenarios:

	2019 $	2018 $
Simultaneous shift in interest rate curve, 250bp	(39,947,728)	(22,456,927)
10% decline of main index	(35,599,671)	(8,224,569)
20% decline of main index	(55,761,213)	(7,403,054)
30% decline of main index	(70,324,286)	(9,353,659)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations from its financial liabilities. The Group's risk appetite is set to ensure that, at all times within the set time horizon, it will always have sufficient liquidity to meet its financial liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. The Group mainly works within very short tenors and maintains a buffer portfolio of cash and high quality liquid assets to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis and management information provided daily to enior management. The Group deems there is sufficient liquidity for the near future and expects to meet its obligations under all reasonable circumstances.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given on the earliest possible date. However, the Group expects that many customers will not request repayment on the earliest possible date the Group could be required to pay and the table does reflect the expected cash flows Indicated by the Group's deposit retention history.

24. Risk management (continued)

At 31 December2019	On demand and less than 1 month $	1 to 3 months $	3 months to 1 year $	More than 1 year $	Total $
Amounts due to credit institutions and other customers	1,817,746,087	17,392,691	58,755,793	–	**1,893,894,571**
Derivative financial liabilities at fair value through profit or loss	8,540,832	55,499,866	50,696,921	19,239,016	**133,976,635**
Non-derivative financial liabilities at fair value through profit or loss	98,296,457	–	–	–	**98,296,457**
Lease liabilities	–	453,190	1,311,602	5,683,255	**7,448,047**
Other financial liabilities	454,851,697	161,999,903	9,220,082	950,327	**627,022,009**
Total undiscounted financial liabilities	**2,379,435,073**	**235,345,650**	**119,984,398**	**25,872,598**	**2,760,637,719**

At 31 December2018 (restated)	On demand and less than 1 month $	1 to 3 months $	3 months to 1 year $	More than 1 year $	Total $
Amounts due to credit institutions and other customers	1,505,183,407	–	–	–	1,505,183,407
Derivative financial liabilities at fair value through profit or loss	8,830,069	18,766,877	18,855,383	–	46,452,329
Non-derivative financial liabilities at fair value through profit or loss	118,785,882	–	–	–	118,785,882
Other financial liabilities	425,365,566	111,931,278	5,625,000	–	542,921,844
Total undiscounted financial liabilities	**2,058,164,924**	**130,698,155**	**24,480,383**	**–**	**2,213,343,462**

Foreign exchange risk

Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than the functional currency.

24. Risk management (continued)

The Group has currency exposures and runs positions in a variety of currencies, mainly in US Dollars, only to support trading activities. The Group has a small risk appetite in proprietary dealing in FX, however its main focus is to gain on arbitrage opportunities in market neutral strategies. Policy requires that any significant FX exposure be hedged using available currency instruments including derivative contracts.

Quantitative analysis
The position at 31 December 2019 was as follows:

	RUB $	USD $	EUR $	GBP $	Other $	Total $
Financial assets						
Cash and cash equivalents	6,520,281	403,856,216	146,269,851	6,713,578	2,736,674	566,096,600
Financial assets at fair value through profit or loss	571,081,477	280,920,978	43,291,305	14,707,260	14,870,368	924,871,388
Amounts due from credit institutions and other customers	215,513,137	880,798,435	399,668,550	4,029,148	17,407	1,500,026,677
Financial assets at fair value through other comprehensive income	–	35,600,905	–	–	–	35,600,905
Other financial assets	23,065,252	78,695,447	26,250,844	1,382,212	6,574	129,400,329
Total assets	**816,180,147**	**1,679,871,981**	**615,480,550**	**26,832,198**	**17,631,023**	**3,155,995,899**
Financial liabilities						
Amounts due to credit institutions and other customers	(33,228,210)	(1,334,883,973)	(506,705,944)	(5,310,506)	(13,575,135)	(1,893,703,768)
Financial liabilities at fair value through profit or loss	(191,587,025)	(37,099,744)	(1,852,785)	(1,037,860)	(695,678)	(232,273,092)
Other financial liabilities	(13,220,443)	(583,884,135)	(32,582,117)	(3,798,473)	(48,400)	(633,533,568)
Total liabilities	**(238,035,678)**	**(1,955,867,852)**	**(541,140,846)**	**(10,146,839)**	**(14,319,213)**	**(2,759,510,428)**

24. Risk management (continued)

The position at 31 December 2018 was as follows:

	RUB $	USD $	EUR $	GBP $	Other $	Total $
Financial assets						
Cash and cash equivalents	1,235,318	231,987,044	132,303,118	13,299,504	1,885,217	380,710,201
Financial assets at fair value through profit or loss	38,418,325	585,022,570	71,967,065	17,730,241	14,404,215	727,542,416
Amounts due from credit institutions and other customers	182,073,569	861,944,921	304,156,202	6,036,766	23,935	1,354,235,393
Financial assets at fair value through other comprehensive income	–	35,236,100	–	–	–	35,236,100
Other financial assets	10,596,641	74,874,009	14,041,110	584,891	352	100,097,003
Total assets	**232,323,853**	**1,789,064,644**	**522,467,495**	**37,651,402**	**16,313,719**	**2,597,821,113**
Financial liabilities						
Amounts due to credit institutions and other customers	(59,041,271)	(1,094,995,061)	(338,803,500)	(12,121,489)	(222,086)	(1,505,183,407)
Financial liabilities at fair value through profit or loss	(78,975,874)	(53,055,303)	(956,405)	(32,081,541)	(169,088)	(165,238,211)
Other financial liabilities	(12,292,741)	(503,028,947)	(25,513,075)	(1,625,497)	(461,584)	(542,921,844)
Total liabilities	**(150,309,886)**	**(1,651,079,311)**	**(365,272,980)**	**(45,828,527)**	**(852,758)**	**(2,213,343,462)**

24. Risk management (continued)

Foreign currency sensitivity analysis

The table below summarises the effect on components of equity had the functional currency of the Group weakened or strengthened against the significant currencies, with all other variables held constant.

	2019 $	2018 $
35% weakening of functional currency against RUB	149,889,307	21,262,880
35% strengthening of functional currency against RUB	(311,308,560)	(44,161,367)
10% weakening of functional currency against EUR	6,758,155	14,290,410
10% strengthening of functional currency against EUR	(8,259,967)	(17,466,057)
10% weakening of functional currency against GBP	1,516,851	(743,375)
10% strengthening of functional currency against GBP	(1,853,929)	908,569

The impact of a change of 35% has been selected for RUB and 10% for other currencies as this has been considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movement.

Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems or from external events. The Group manages this risk through policies, procedures and internal controls, including KRI's and KPI's, to ensure compliance with laws and regulation as well as set risk tolerance. Quality and timelines of risk mitigation is being monitored, by the Operational Risk Management unit and the Risk Management and Compliance Committee. Further assurance is provided by the Internal Audit function.

Provisions of the Group's unaudited Pillar 3 disclosures, required under Part 8 Disclosure by Institutions of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, will be available within the first half of 2020 year on the Group’s website.

Regulatory capital and regulatory risk

The Group's activities are regulated in a number of jurisdictions and are therefore subject to various regulation and legislation relating to conduct of business and the provision of financial services and regulatory capital. This imposes extensive reporting requirements and continuing self-assessment and appraisal. The Group has both a Compliance department and a Risk Management department which are responsible for ensuring that it meets the rules of the regulators in each jurisdiction. The Group maintains close working relationships with its regulators and seeks continually to improve its operating efficiencies and standards. The compliance officers are in regular contact with the directors and senior management.

24. Risk management (continued)

The regulatory environment is constantly evolving and imposes significant demands on the resources of the Group. The Group continues to provide considerable resources to meet the regulatory requirements.

The Group is subject to the capital adequacy supervision requirements of the FCA and has maintained adequate levels of capital within its regulated operating subsidiaries during the year. The regulatory capital structure of the Group largely comprises capital and reserves. Capital requirements are calculated from market risk, counterparty risk, credit risk and operational risk assessments. The Group has an Internal Capital Adequacy Assessment Process ("ICAAP") as required by the FCA for establishing the appropriate amount of regulatory capital to be held, The ICAAP gives consideration to both current and projected financial and capital positions, and includes stress testing for adverse economic conditions.

The ICAAP is updated, at least annually, to reflect changes to the Group's structure and the business environment. Capital adequacy is monitored on an ongoing basis by management. The adequacy of the Group's capital is monitored using the methods, principles and ratios similar to the ones established by the Basel Capital Accord. The primary objective of the Group's capital management is to ensure the Group complies with externally imposed capital requirements and that the Group maintains required credit ratings and healthy capital ratios in order to supports its business and to maximize shareholders' value. The Group maintained a regulatory capital position of 254% (278% in 2018) excess over its minimum regulatory capital requirements.

Provisions of the Group's unaudited Pillar 3 disclosures, required under Part 8 Disclosure by Institutions of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, will be available within the first half of 2020 year on the Group's website.

25. Commitments and contingencies

Russian Legal Case

Contingent Liability: Russian Legal Case

SCL ("the firm") has been named as defendant in a legal case alongside the co-defendant, Probusinessbank ("PBB"), represented by the State Deposit Insurance Agency ("DIA"), PBB's bankruptcy trustee, in a claim for RUB18.5b (approximately USD250m). On 26th December 2019 the claim was lodged by LLC WEI M ("the claimant"), in the Moscow Arbitrazh Court ("the Court"), Russia. Ambika Investments Limited ("Ambika") has been engaged as a third party (intervener).

Ambika and PBB were SCL's clients since 2009 and 2010 respectively. Ambika and SCL also entered into several agreements in respect of stock lending and repo financing services. The obligations of Ambika under those arrangements were supported by PBB by putting in place a guarantee in favour of SCL.

On 12th August 2015 the Central Bank of Russia revoked PBB's banking license and appointed the DIA as the temporary administrator of PBB. By a decision of the Court of 28th October 2015, PBB was declared insolvent and bankruptcy proceedings were commenced. The DIA was appointed as bankruptcy trustee. LLC WEI M, a Russian company, is a creditor of PBB in the bankruptcy proceedings.

Following the revocation of PBB's banking licence, SCL undertook a close-out netting procedure strictly in accordance with the applicable regulations and contractual agreements against the title transfer collateral arrangement assets ("TTCA") held.

LLC WEI M has requested the Court to invalidate the close out transaction by SCL in relation to securities (the "securities") totalling RUB 18.5b; to invalidate the transaction on the termination of obligations of SCL to PBB on the return of the securities; and asks the court to apply the consequences of the invalidity of the said transactions.

SCL legal and the external legal counsel believe that the claim is unlikely to prevail with significant legal hurdles existing for the claimant, including the potential unenforceability should the claim prevail. On this basis, the Directors do not consider the potential for any eventual liability falling upon the Company to be probable, and will continue to actively contest the claim.

Resolution of 2018 Contingent Liability Disclosure

A contingent liability disclosure in the 2018 accounts was resolved in October 2019. The case related to an action in Russia which was brought by a Joint-Stock Company "Non-State Pension Fund FUTURE", a non-state pension fund. On 4th October 2019 the judge of the Supreme Court of the Russian Federation dismissed the cassation appeal, stating that material and procedural legal provisions had not been breached and confirmed that all previous court decisions, which also dismissed the case, were correct. Following this judgement the case cannot now be heard by the full Supreme Court and the matter is now closed.

Taxation

As of 31 December 2018, a provision of $2.4m was made in respect of unrecoverable VAT as the firm's estimate indicated that it is likely that such an amount of loss would occur.

During the year 2019 the firm has continued the health-check work in relation to its VAT affairs. The firm, with an assistance of the professional tax advisors, has undertaken a thorough and comprehensive review of its VAT position and re-assessed its estimate in respect of unrecoverable VAT. As a result of the re-assessment exercise the amount of a provision has been further defined and, consequently, changed from $2.4m (as of 31 December 2018) to $2.2m (31 December 2019).

The firm has informed HM Revenue & Customs about the voluntary review of the VAT position. The firm will ensure that the outcome of the VAT self-assessment will be shared with the tax authorities and all obligations will be settled in due course (Note 14).

26. Subsidiary undertakings

The following were subsidiary undertakings of the Group at the year-end:

Name	Country of incorporation	Class of shares	Holdings	Principal activity
Sova Asset Management (CY) LTD	Cyprus	Ordinary	100%	Asset management services
Blustone S.A.	Luxembourg	Not applicable	Not applicable	Raising finance

The Group does not have any direct or indirect shareholdings in the subsidiary Blustone S.A. Blustone S.A. was established as the special purpose vehicle ("SPV") to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the parent company or to its clients. Since its origination the SPV has no deal flow yet.

Details of Sova Asset Management (CY) LTD acquisition are in Note 27.

27. Business combinations

In November 2019, the Group obtained control over Sova Asset Management (CY) Ltd ("SAM"); the Group's interest in the share capital of SAM is 100%. SAM is an alternative investment fund manager regulated by the Cyprus Securities and Exchange Commission. SAM manages two investment funds with several segregated compartments. This acquisition allows the Group to achieve its strategic objective of creating a broader investment service group that is able to provide a full spectrum of investment services.

The fair values of assets and liabilities of SAM were as follows:

Assets	**Fair value recognised on acquisition** **$**
Cash and cash equivalents	526,022
Property, plant and equipment	88,605
Intangible assets	8,098
Other assets	1,106,531
Total assets	**1,729,256**
Liabilities	
Borrowings	555,499
Other liabilities	79,484
Total liabilities	**634,983**
Net assets	**1,094,273**

27. Business combinations (continued)

	Fair value
	$
Consideration transferred on acquisition	1,770,080
Less: fair value of net identifiable assets	(1,094,273)
Goodwill	**675,807**

Analysis of cash outflows on acquisition of the subsidiary

	$
Net cash acquired with the subsidiary (included in cash flows from investing activities)	526,022
Cash paid on acquisition (included in cash flows from investing activities)	(1,770,080)
Net cash outflow	**(1,244,058)**

Acquisition-related cost equals $10,232 and recognised as personnel and other operating expenses in the periods in which the costs are incurred.

From the date of acquisition through the reporting date, the acquisition of SAM resulted in an increase of net commission income and profit before tax by $1,633,296, and $1,374,680, respectively. If the acquisition had occurred at the beginning of 2019, the impact on the Group's profit before tax and net commission income for the period would have been $1,044,256 and $2,620,386, respectively.

28. Related party transactions

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or 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 Group.

The volumes of related party transactions, outstanding balances as of the reporting date, and related income and expenses for the reporting period are stated below.

28. Related party transactions (continued)

Income and expense from related party transactions are as follows:

	2019			2018		
	Parent company	Entities under common control	Other related parties	Parent company	Entities under common control	Other related parties
	$	$	$	$	$	$
Interest income	–	632,377	12,009,388	355,039	2,776,851	1,012,524
Interest expense	–	(275,566)	(500,247)	–	(419,888)	(174,115)
Fee and commission income	–	828,843	121,215	75	–	13,489
Fee and commission expense	–	(30,414)	(1,568)	(25)	(358)	–
Net gains from financial assets at fair value through profit or loss	–	1,014,032	236,250	–	1,164,399	159,849
Net gains/(losses) from foreign currencies	–	479,033	733,971	–	5,276,721	(233,216)
Net (losses)/gains from derivative instruments	–	(72,645,682)	(10,756,029)	(991)	132,071,791	353,456
Other income	–	–	52,906	–	–	27,700
Other expenses	–	–	(33,243)	–	–	(57,393)

Income and expense from related party transactions for the period from 1 Jan 2019 to 23 July 2019 relate to LLC Concern Rossium Group. Income and expense from related party transactions for the period from 24 July to 31 December 2019 relate to the entities under the common control. Income and expense from related party transactions for 2018 year related to the LLC Concern Rossium Group and the entities under common control.

28. Related party transactions (continued)

Balances due from and to related parties at the year ends are as follows:

	31 December 2019			31 December 2018		
	Parent company	Entities under common control	Other related parties	Parent company	Entities under common control	Other related parties
	$	$	$	$	$	$
Amounts due from related parties						
Cash and cash equivalents	–	5,635,194	–	–	12,022,142	–
Financial assets at fair value through profit or loss	–	9,258,884	7,839,255	–	12,288,296	862,093
Reverse repurchase agreements (prior to credit risk mitigation)	–	–	573,297,058	–	–	157,297,010
Loans given (prior to credit risk mitigation)	–	10,050,082	168,448	–	–	–
Other assets	–	243,376		–	–	–
Amounts due to related parties						
Amounts due to credit institutions and other customers	–	(10)	(6,042,856)	(34,024)	–	(2,589,708)
Financial liabilities at fair value through profit or loss	–	(1,444,727)	(1,411,323)	–	(710,404)	(651,399)
Direct repurchase agreements	–	(58,758,728)	(36,513,994)	–	–	–
Other liabilities	–	(890,125)	(26,186,162)	–	(11,873,000)	(3,917,902)

28. Related party transactions (continued)

From time to time the Group enters into short-term transactions with related parties strictly when all conditions below are met:

- the transaction is at arm's length basis;
- low volatility, highly liquid financial Instruments are received as collateral; and
- zero tolerance is set to potential wrong way risk, hence no definite positive correlation between obligor and underlying assets is accepted.

All repurchase agreements with related parties are collateralised.

Balances due from and to related parties as at the year ended 31 December 2019 related to entities under control of ultimately beneficial owners while balances due from and to related parties as at the year ended 31 December 2018 related to the LLC Concern Rossium Group of companies.

29. Directors' remuneration

Directors' remuneration consists of:

	2019	2018
	$	$
Directors' emoluments	1,700,188	1,025,638
Company contributions to defined contribution pension schemes	12,796	13,303
	1,712,984	**1,038,941**

During the year retirement benefits were accruing to 1 director (1 in 2018) in respect of defined contribution schemes.

The highest paid director received remuneration of $918,277 ($512,413 in 2018).

The value of the Group's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to $12,796 ($13,303 in 2018).

30. Restatement of prior-year balances

Contractual terms and conditions and economic substance of the CASS arrangements for holding client money assume that the Group does not control such assets and has no right with potential to produce economic benefits and bearing the risks. Thereupon the directors consider that the exclusion of these cash-assets and related liabilities does give a true and fair reflection of the size of the balance sheet of the Group.

The corresponding change had no effect on the Group's net asset position and was made at year-end and hence these updates are to change the comparatives to be consistent with the current policies.

The table below shows the effect of the restatement:

	31 December 2018 Original $	Change in accounting treatment $	31 December 2018 Restated $
Current assets			
Cash and cash equivalents	410,106,292	(29,396,091)	380,710,201
Other assets	93,697,464	9,162,532	102,859,996
Current liabilities			
Amounts due to credit institutions and other customers	1,525,416,966	(20,233,559)	1,505,183,407

	31 December 2017 Restated PY* $	Change in accounting treatment $	31 December 2017 Restated $
Current assets			
Cash and cash equivalents	228,447,133	(37,925,285)	190,521,848
Other assets	124,268,514	150,445	124,418,959
Current liabilities			
Amounts due to credit institutions and other customers	349,257,484	(37,774,840)	311,482,644

*Balances include restatement adjustments made in 2018 year.

Previous year restatements related to comparative balances at 31 December 2017

There were some adjustments disclosed in the annual financial statements of the Group for the year ended 31 December 2018 in the Note 34 “Restatement of prior-year balances”. The reason for the adjustments was the unification of the accounting approach to ensure consistency with the parent’s accounting policies. All these adjustments had no effect on the Group’s net asset position.

30. Restatement of prior-year balances (continued)

Adjustment 1 – Coupons on bonds, margin calls and loans to customer disclosure

Adjustment one relates to the reclassification of coupon on bonds from other assets and liabilities to financial assets and liabilities at fair value through profit and loss. This adjustment was raised to align the SCL accounts with the Group accounting policies. To remain consistent with group accounting policies, the following reclassifications were also made:

- Margin calls on repurchase agreements from other assets to amounts due from credit institutions and other customers.
- Loans to customers from other assets to amounts due from credit institutions and other customers.

Adjustment 2 – Repo interest gross up

The second previous year adjustment relates to change in accounting treatment of the accrued interest receivable and the accrued interest payable on repurchase agreements. It was found out that the interest receivable and interest payable from the external repurchase agreement trades with different counterparties were presented on a net basis at the statement of financial position. These balances represented balances due from/to different counterparties with no Master Netting Agreements in place. According to IFRS, such netting is not allowed and the balances due from/to different counterparties are to be presented separately, which means grossing up is required to adjust the incorrect presentation occurred in relation to the balances for accrued interests on repurchase agreement trades. This gross-up adjustment does not impact the Group's net assets.

Adjustment 3 - Securities netting

Adjustment three was made due to change in accounting treatment of internal trades in securities (equities and bonds). Positions arising from internal trades do not have any impact on the Group's net assets, but they gross up the long and short positions in securities. So the Group decides to net off the positions in the same security (under same ISIN) to present the accounts in the correct manner.

Adjustment 4 – Swap gross up

The fourth adjustment relates to change in accounting treatment of foreign currency swap fair value presentation. The Group decides to gross up the mark-to market revaluation (net open position) per each trades. Previously it was recognised on a net basis per portfolio.

30. Restatement of prior-year balances (continued)

The table below shows the effect of the adjustments:

		Reclassification (correction of disclosure)			Change in accounting treatment			
	31 December 2017 Original $	Coupon on bonds (adj.1) $	Margin calls on repo (adj.1) $	Loans to customers (adj.1) $	Interest repo gross up (adj.2) $	Securities netting (adj.3) $	Swap gross up (adj.4) $	31 December 2017 Restated $
Assets								
Financial assets at fair value through profit or loss	952,051,280	3,598,332				(53,015,964)	283,330	902,916,978
Amounts due from credit institutions and other customers	221,612,772		(11,349,922)	(8,367,563	(164,350			218,794,763
Other assets	125,085,412	(3,598,332)	11,349,922	(8,367,563)	(55,246)		(145,679)	124,268,514
Liabilities								
Financial liabilities at fair value through profit or loss	226,593,752	24,748				(53,015,964)	495,580	174,098,116
Amounts due to credit institutions and other customers	353,521,437		(4,373,057)		109,104			349,257,484
Other liabilities	599,629,700	(24,748)	4,373,057				(357,929)	603,620,080

31. Post balance sheet events

Obtaining a banking license in Europe

The Group is assessing a potential acquisition of a European banking institution. Such acquisition will be a part of the Group's strategic plan, will expand the Group's product offering and will allow the Group to provide a wide-range of financial services.

COVID-19 Pandemic

Management consider the coronavirus outbreak will have a significant disruptive impact on the performance of the global economy. As of the end of 1Q2020 there is no evidence that the peak of the outbreak peak is behind us; consequently we believe that the economic impact of the unprecedented anti-virus measures undertaken globally are yet to be assessed and factored into asset prices. Management intend to review the business strategy by the end of 1H2020 in order to incorporate the newly available economic data into the models.

The firm has been closely monitoring the developments around the spread and impact of the Covid-19 virus and likely government responses. Sova has taken a number of actions to ensure its operational resilience and operational effectiveness.

In 1Q 2020, as a response to market challenges and global anti-pandemic measures, the firm launched its business continuity plan and contingency funding plan. The firm has implemented measures appropriate to providing for staff safety – over 95% of employees are currently working from home. Owing to its robust remote-access infrastructure, the firm has not been experiencing any material adverse operational impacts arising from the COVID-19 outbreak. Management have been closely monitoring the capital and liquidity positions of the firm, proactively reducing its risk exposure.

Individual Financial Statements

Introduction

Company law requires the directors to prepare individual financial statements for each financial year.

The individual financial statements comprise:

- Company Statement of Financial Position;
- Company Income Statement;
- Company Statement of Comprehensive Income;
- Company Statement of Changes in Equity;
- Company Statement of Cash Flows; and
- Notes to the Company Financial Statements.

Company Statement of Financial Position as at 31 December 2019

	Note	31 December 2019 $	As restated 31 December 2018 $	As restated 1 January 2018 $
Non-current assets				
Investments in subsidiaries	3	1,770,080	–	–
Intangible assets		321,213	408,033	539,200
Property, plant and equipment and right-of-use assets		6,744,693	1,115,641	737,211
Deferred tax asset		830,394	1,189,794	768,431
		9,666,380	**2,713,468**	2,044,842
Current assets				
Cash and cash equivalents		565,867,212	380,710,201	190,521,848
Financial assets at fair value through profit or loss		699,036,245	349,866,216	718,181,057
Financial assets at fair value through profit or loss pledged under repurchase agreement		225,694,779	377,676,200	184,735,921
Amount due from credit institutions and other customers		1,500,595,301	1,354,235,393	218,794,763
Investment securities available-for-sale		–	–	5,331,500
Financial assets at fair value through other comprehensive income		35,600,905	35,236,100	–
Other assets		133,874,866	102,859,996	124,418,959
		3,160,669,308	**2,600,584,106**	**1,441,984,048**
Total assets		**3,170,335,688**	**2,603,297,574**	**1,444,028,890**
Non-current liabilities				
Lease liabilities		5,140,150	–	–
		5,140,150	**–**	**–**
Current liabilities				
Financial liabilities at fair value through profit or loss		232,273,092	165,238,211	174,098,116
Amounts due to credit institutions and other customers		1,893,703,768	1,505,183,407	311,482,644
Income tax payable		12,895,382	509,772	2,318,996
Other liabilities		631,274,589	545,675,079	603,620,080
		2,770,146,831	**2,216,606,469**	**1,091,519,836**
Total liabilities		**2,775,286,981**	**2,216,606,469**	**1,091,519,836**
Capital and reserves				
Share capital		346,031,694	346,031,694	346,031,694
Share premium		4,500,566	4,500,566	4,500,566
Financial assets through other comprehensive income reserve		457,378	199,624	–
Available-for-sale reserve		–	–	647,405
Foreign currency translation reserve		4,663,992	4,663,992	4,663,992
Retained earnings		39,395,077	31,295,229	(3,334,603)
Total equity		**395,048,707**	**386,691,105**	**352,509,054**
Total equity and liabilities		**3,170,335,688**	**2,603,297,574**	**1,444,028,890**

Company Statement of Financial Position
as at 31 December 2019 (continued)

The Company financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

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Sergey Sukhanov
Director

Date: 11 MAY 2020

Sova Capital Limited

Company Income Statement
for the Year Ended 31 December 2019

	Note	2019 $	2018 $
Interest income			
Interest income on amounts due from credit institutions and other customers		68,259,048	30,101,390
Interest income on financial assets at fair value through profit or loss		13,097,399	16,854,569
Other interest income		918,515	788,715
		82,274,962	**47,744,674**
Interest expense			
Interest expense on amounts due to credit institutions and other customers		(31,550,872)	(15,150,889)
Other interest expense		(586,456)	(595,193)
		(32,137,328)	**(15,746,082)**
Credit loss allowance		24,475	396,511
Net interest income		**50,162,109**	**32,395,103**
Net commissions (loss)/income		(48,085)	632,951
Net gains/(losses) from financial instruments at fair value through profit or loss		102,395,221	(8,837,902)
Net (losses) from financial instruments at fair value through other comprehensive income		–	(362,092)
Net gain/(losses) from foreign currencies		7,317,243	(12,247,654)
Net (losses)/gains from derivative instruments		(30,643,930)	69,503,685
Other income		7,357,764	8,229,262
Non-interest income		**86,378,213**	**56,918,250**
Personnel and other operating expenses		(48,760,462)	(47,560,126)
Depreciation of property, plant and equipment and right-of-use assets		(1,808,329)	(819,925)
Amortisation of intangible assets		(136,352)	(165,047)
Non-interest expense		**(50,705,143)**	**(48,545,098)**
Profit before tax		**85,835,179**	**40,768,255**
Income tax expense		(21,735,331)	(6,576,561)
Profit for the period		**64,099,848**	**34,191,694**

Sova Capital Limited

Company Statement of Comprehensive Income
for the Year Ended 31 December 2019

	Note	2019 $	2018 $
Profit for the year		**64,099,848**	**34,191,694**
Other comprehensive income:			
Items that will or may be reclassified to profit or loss			
Unrealised gains from debt financial instruments at fair value through other comprehensive income		365,040	101,186
Realised gains on disposal of financial assets at fair value through other comprehensive income, reclassified to profit or loss		–	362,092
Changes in allowance for expected credit loss		–	(2)
Income tax effect		(107,286)	–
		257,754	**463,276**
Total comprehensive income for the period		**64,357,602**	**34,654,970**

Sova Capital Limited

Company Statement of Changes in Equity
for the Year Ended 31 December 2019

	Share capital $	Share premium $	Financial assets at fair value through other comprehensive income reserve $	Foreign currency translation reserve $	Retained earnings $	Total equity $
At 1 January 2019	346,031,694	4,500,566	199,624	4,663,992	31,295,229	386,691,105
Comprehensive income for the period						
Profit for the period	–	–	–	–	64,099,848	64,099,848
Other comprehensive income for the period	–	–	257,754	–	–	257,754
Distributions to owners						
Dividends paid	–	–	–	–	(56,000,000)	(56,000,000)
At 31 December 2019	346,031,694	4,500,566	457,378	4,663,992	39,395,077	395,048,707

Sova Capital Limited

Company Statement of Changes in Equity
for the Year Ended 31 December 2018

	Share capital $	Share premium $	Financial assets at fair value through other comprehensive income reserve $	Foreign currency translation reserve $	Available-for-sale reserve $	Retained earnings $	Total equity $
At 1 January 2018	346,031,694	4,500,566	–	4,663,992	647,405	(3,334,603)	352,509,054
Effect of initial application of IFRS 9	–	–	(263,652)	–	(647,405)	438,138	(472,919)
Restated balance at 1 January 2018	346,031,694	4,500,566	(263,652)	4,663,992	–	(2,896,465)	352,036,135
Comprehensive income for the period							
Profit for the period	–	–	–	–	–	34,191,694	34,191,694
Other comprehensive income for the period	–	–	463,276	–	–	–	463,276
At 31 December 2018	346,031,694	4,500,566	199,624	4,663,992	–	31,295,229	386,691,105

Sova Capital Limited

Company Statement of Cash Flows
for the Year Ended 31 December 2019

	2019 $	As restated 2018 $
Cash flows from operating activities		
Profit for the financial period	64,099,848	34,191,694
Adjustments for:		
Amortisation of intangibles	136,352	165,047
Depreciation of property, plant and equipment and right of use assets	1,808,329	819,925
Credit loss allowance and other provisions	(15,840)	2,889,864
Taxation	21,735,331	6,576,561
Movement in deferred taxation	–	(96,865)
(Increase)/decrease in financial assets at fair value through profit or loss	(197,290,739)	144,964,088
(Increase) in amounts due from credit institutions and other customers	(146,458,345)	(1,136,060,841)
(Increase)/decrease in other assets	(31,739,396)	21,529,487
Increase/(decrease) in financial liabilities at fair value through profit or loss	67,003,855	(8,990,841)
Increase in amounts owed to credit institutions and other customers	388,431,527	1,193,169,746
Increase/(decrease) in other liabilities	85,284,603	(60,445,243)
Corporation tax paid	(8,390,448)	(8,710,285)
Net cash generated from operating activities	**244,605,077**	**190,002,337**
Cash flows from investing activities		
Purchase of intangible assets	(49,533)	(33,880)
Purchase of property, plant and equipment	(327,341)	(1,198,355)
Purchase of financial assets at fair value through other comprehensive income	–	(34,920,690)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income	–	34,800,391
Acquisition of subsidiary, net of cash received	(1,770,080)	–
Net cash used in investing activities	**(2,146,954)**	**(1,352,534)**
Cash flows from financing activities		
Dividends paid	(56,000,000)	–
Cash outflow for leases	(1,662,876)	–
Net cash used in financing activities	**(57,662,876)**	**–**
Effect of exchange rates changes on cash and cash equivalents	370,399	1,541,665
Effect of expected credit loss on cash and cash equivalents	(8,635)	(3,115)
Net increase in cash and cash equivalents	**185,157,011**	**190,188,353**
Cash and cash equivalents at beginning of the year	380,710,201	190,521,848
Cash and cash equivalents at the end of the year	**565,867,212**	**380,710,201**
Cash and cash equivalents at the end of the year comprise		
Cash at bank and in hand	565,867,212	380,710,201

1. Basis of preparation

The individual financial statements of Sova Capital Limited (SCL, the "Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The financial statements are prepared in US dollars which is the functional currency of the Company and the Group.

These financial statements do not include the disclosure notes, except ones disclosed below, because equivalent disclosures are included in the Group's consolidated financial statements.

2. Significant accounting policies

The principal accounting policies adopted are the same as those set out in Note 2 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

3. Investments in subsidiary undertakings

The Company's acquisition of SAM and details of the subsidiary companies are disclosed in Notes 26 and 27 to the consolidated financial statements. Below are the cost of investments in subsidiaries as it recognised in Company's individual financial statements.

	31 December 2019 $	**31 December 2018 $**
Balance at 1 January	–	–
The cost of investments in SAM	1,770,080	–
Balance at 31 December	**1,770,080**	**–**

There is no impairment provision recognised in relation to subsidiary undertakings.