

**BROKERCREDITSERVICE STRUCTURED  
PRODUCTS PLC**

**REPORT AND CONSOLIDATED FINANCIAL  
STATEMENTS**

Year ended 31 December 2016

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **CONTENTS**

### **PAGE**

Board of Directors and other officers	1
Management Report	2 - 8
Independent auditor's report	9 - 11
Consolidated statement of profit or loss and other comprehensive income	12
Consolidated statement of financial position	13
Consolidated statement of changes in equity	14
Consolidated statement of cash flows	15
Notes to the consolidated financial statements	16 - 57

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **BOARD OF DIRECTORS AND OTHER OFFICERS**

**Board of Directors:**

Dimitra Karkalli  
Lambros Soteriou

**Company Secretary:**

M. Kyprianou Fiduciaries Ltd

**Independent Auditors:**

Yiallourides & Partners Ltd  
Chartered Accountants

**Registered office:**

116 Gladstonos street  
M. Kyprianou Tower, 3rd and 4th floors  
3032 Limassol  
Cyprus

**Bankers:**

Hellenic Bank Public Company Ltd  
BCS Bank JSC

**Registration number:**

HE158664

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **MANAGEMENT REPORT**

The Board of Directors presents its report and audited consolidated financial statements of the Company and its subsidiaries (together with the Company, the "Group") for the year ended 31 December 2016.

### **Incorporation**

The Company BrokerCreditService Structured Products Plc was incorporated in Cyprus on 18 March 2005 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113.

### **Principal activities and nature of operations of the Group**

BrokerCreditService Structured Products Plc acts as an investment and financing company and conducts trading operations in the international securities markets (except for the investment activity that requires authorisation and/or license). This includes entering into transactions with market counterparties and related parties that are members of the Group. These transactions include, but are not limited to, repo transactions, loans and transactions in securities in the international capital markets including exchanges and Over-the-Counter ("OTC") markets. The Company also conducts investment activities in different types of bonds of both Russian and international issuers.

As of the date hereof, the Group conducts its business through the following operating legal entities. These are Routa Luxury Services Ltd., Flamel Global Limited, Seldthorn Private Equity Limited, Kertina Group Ltd and Botimelo Group Ltd, all of them being wholly owned subsidiaries of Brokercreditservice Structured Products Plc. Each of these wholly owned Subsidiaries is established to carry on any trade or activity whatsoever related to, connected with or involving shares, stock, debentures, debenture stock, bonds, notes, obligations, warrants, options, derivatives, commodities and any other instruments related to equity, debt or commodities of all kinds (except for the investment activity that requires authorisation and/or license).

The ultimate shareholder owning and controlling party is Mr. Oleg Mikhasenko, a Russian individual who is the sole ultimate beneficial owner of the Group.

### **Changes in group structure**

Up to 18 July 2016, BrokerCreditService Structured Products Plc was a wholly owned subsidiary of BCS Holding International Limited, a company incorporated and domiciled in the British Virgin Islands as a holding company. During the year 2016, BCS Financial Group introduced a new top-level holding company, FG BCS Limited (incorporated and domiciled in Cyprus), to its group structure, and liquidated BCS Holding International Ltd. The new holding company is now the direct and ultimate holding company of BrokerCreditService Structured Products Plc.

### **Review of current position, future developments and performance of the Group's business**

The Group's development to date, financial results and position as presented in the consolidated financial statements are considered satisfactory.

The Board of Directors does not expect major changes or developments in the principal activities, financial position and performance of the Company in the foreseeable future.

The most important highlights of the Group during the year ended 31 December 2016 were:

- Leading positions in sales of structured products to retail customers.
- Increase in the number of listed structured notes on the Moscow Stock Exchange.
- Ability for remote purchase of structured products.
- Increased range of structured products provided.

The Group's strategic goals and main developing points are:

- Increase of structured products' sales with low interest rates in USA and Europe and reduced rates in Russia
- Implementation of new types of products (i.e. introduction of new autocallable products)
- Sales diversification through partners and agents and development of remote and other distribution channels (i.e. promotion of online distribution of structured products through BCS channels, external partnership network extension, joint products with other entities under common control)

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

---

## MANAGEMENT REPORT

- Implementation and development of strategy product lines with volatility control
- Quasi-endowment assurance development – implementation of products with partial payment option
- Wider range of covered bonds and stock
- Enhancement of Euro Medium Term Note program
- Reporting quality improvement

### **Principal risks and uncertainties**

The principal risks and uncertainties faced by the Group are disclosed in note 4 of the consolidated financial statements.

### **Existence of branches**

The Group does not maintain any branches.

### **Use of financial instruments by the Group and financial risk management**

The Group's activities expose it to a variety of financial risks: market risk, credit risk, currency risk and liquidity risk arising from the financial instruments it holds. The Company and its consolidated subsidiaries, as part of their operations and normal activities use various financial instruments such as options, futures, forward contracts, direct and reverse repurchase agreements, credit linked notes and other instruments which expose the Group to the financial risks mentioned above.

The Group's risk management function is designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date administrative and information systems. The Group regularly reviews its risk management framework to reflect the changes in markets, products and effective best practice.

The current structure of the risk framework implemented by the Group aims to manage risks in order to minimise the exposure of itself and its stakeholders to any event, or set of occurrences able to cause adverse effects, while concurrently maximising the efficiency and effectiveness of the Group's operations in accordance with best practice. The purpose of managing risks is the prompt identification of any potential problems before they occur so that risk handling activities may be planned and invoked as needed to mitigate adverse impacts and allow the Group to achieve overall objectives.

The responsibility for the overall framework of risk governance and management lies with the Board of Directors. Management recognises that the risk is embedded in all of the Group's activities and for this reason it recognises the need for the continuous identification, assessment, examination, and control of each type of risk. The risk management policies employed by the Group to manage these risks are discussed below:

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

---

## MANAGEMENT REPORT

### **Market price risk**

Market price risk is the possibility that the Group may suffer a loss resulting from the fluctuations in the values of, or income from equity securities classified at fair value through profit or loss and derivative financial instruments. The Group is exposed to market price risk because of investments held by the Group and classified as financial assets at fair value through profit or loss which are susceptible to market price risk arising from uncertainties about future prices of these investments.

The Group maintains trading securities owned and securities sold but not yet purchased in order to facilitate client transactions and to meet a portion of clearing deposit requirements at various clearing organizations. These securities include debt securities issued by the Russian government, corporate debt securities and equity securities. Changes in the value of trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors. The Group manages its trading inventory by product type.

Activities to facilitate client and proprietary transactions are monitored by the broker dealer support services department. The level of securities deposited is monitored by the settlement area within broker dealer support services department.

Price risk for equity securities is the risk of changes in value of a financial instrument as a result of changes in market prices regardless of whether they have been caused by factors specific for a particular instrument or factors influencing all instruments traded in the market. Price risk for equity securities exists when the Group has a long or short position in an equity financial instrument

### **Interest rate risk**

Interest rate risk is the risk that the Group's income or financial instrument portfolio may change due to interest rate fluctuations. The Group takes on exposure to the effects of fluctuations in prevailing market interest rates on its financial position and cash flows. The Group offers its clients overnight cash sweep programs that are interest rate sensitive. While clients earn interest for balances on deposit under the cash sweep programs, the Group earns a fee. These fees are based on prevailing interest rates in the current interest rate environment, but may be adjusted in an increasing or decreasing interest rate environment or for other reasons. Changes in interest rates and fees for the overnight cash sweep programs are monitored by fee and rate setting committee (the FRS committee), which governs and approves any changes to fees. The FRS committee balances financial risk of the cash sweep programs with products that offer competitive client yields.

Interest rate risk management through monitoring of the mismatch of the maturities of interest bearing assets and interest bearing liabilities is supplemented by monitoring the sensitivity of financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100-basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves.

Interest-earning assets are financed primarily by brokerage client cash balances and deposits from banking clients. Non-interest-bearing funding sources include non-interest-bearing brokerage client cash balances and proceeds from stock-lending activities, as well as equity. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. When interest rates fall, the Group may attempt to mitigate some of this negative impact by extending the maturities of assets in investment portfolios to lock in asset yields, and by lowering rates paid to clients on interest-bearing liabilities.

## MANAGEMENT REPORT

### **Credit risk**

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. The Group bears credit risk on margin lending activities, securities lending activities, its role as a counterparty in financial contracts and investing activities, the activities of clients, including the execution, settlement, and financing of various transactions on behalf of these clients. These activities are transacted on either a cash or margin basis. The Group seeks to control the risks associated with its customers' activities by requiring each trade to be carried out in accordance with margin policies. Each customer is required to have minimum funds in their account for opening positions, and for maintaining positions. The system automatically monitors each customer's margin requirements in real time, and confirms that every customer has sufficient funds in his or her account before their trades are executed. If at any point in time a customer's trading position does not comply with the applicable margin requirement, the position can be automatically partially or entirely liquidated in accordance with the margin policies and procedures. The Group adjusts its margin requirements if it believes its risk exposure is not appropriate based on market conditions. For collateralised securities transactions involving repurchase and resale agreements the Group is permitted to sell or repledge the securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover any short positions.

The Board of Directors has delegated responsibility for the oversight of credit risk to the Group's Risk Management Committee. The Risk Management Committee is responsible for management of credit risk, including formulating credit policies, covering collateral requirements, adjusting margin requirements for certain securities, credit assessment, reviewing and assessing credit risk, limiting concentrations of exposure to counterparties, and by issuer, credit rating bands, market liquidity and country (for trading assets), and reviewing compliance of business units with agreed exposure limits. Collateral arrangements relating to margin loans, securities lending agreements, and resale agreements include provisions that require additional collateral in the event that market fluctuations result in declines in the value of collateral received. The credit risk exposure related to loans to banking clients is actively managed through individual and portfolio reviews performed by management. Management regularly reviews asset quality including concentrations, delinquencies, non-accrual loans, charge-offs, and recoveries. All are factors in the determination of an appropriate allowance for loan losses, which is reviewed quarterly by senior management.

The Group has exposure to credit risk due to its obligation to settle transactions with clearing corporations, mutual funds, and other financial institutions even if its client or a counterparty fails to meet its obligations to the Group. The Company acts as the investment manager for a number of mutual and real estate funds. Although it has no obligation to do so, the Group may decide for competitive reasons to provide credit, liquidity or other support to managed funds in the event of significant declines in valuation of fund holdings or significant redemption activity that exceeds available liquidity. Such support could cause the Group to take significant charges and could reduce liquidity. If the Group chose not to provide credit, liquidity or other support in such a situation, the Group could suffer reputational damage and its business could be adversely affected.

The Group is subject to concentration risk if it extends large loans to or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry). Receivables from and payables to clients and securities borrowing and lending activities are conducted with a large number of clients and counterparties and potential concentration is carefully monitored. Management seeks to limit this risk through careful review of the underlying business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

The brokerage IT system automatically monitors the compliance with limits on each customer trading in the stock market as well as manual control on customers with transactions over-the-counter. In case of breach of limits the system automatically closes the credit position through disposal of pledged financial instruments (mainly quoted securities). The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis. At the transaction level, an assessment of a borrower's ability to service the proposed level of debt is performed. Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques. At the portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit. Meanwhile, the Group should comply with statutory ratios on credit concentration risk

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

---

## MANAGEMENT REPORT

The analysis by credit quality of financial assets is mainly based on Standard and Poor's rating and other ratings converted to the nearest equivalent to the Standard and Poor's rating scale. Pursuant to the policy on limits, the exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The Company defines its risk appetite by approving a policy on limits, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions.

### **Liquidity risk**

The Group conducts substantially all of its business through its wholly-owned subsidiaries. The capital structure is designed to provide each subsidiary with capital and liquidity to meet its operational needs and regulatory requirements. Liquidity needs are generally met through cash generated by its subsidiaries, as well as cash provided by the shareholder, if required. The Group maintains excess liquidity in the form of overnight cash deposits and short-term investments to cover daily funding needs and to support growth in the business. Generally, the Group does not hold liquidity at its subsidiaries in excess of amounts deemed sufficient to support the subsidiaries' operations, including any regulatory capital requirements. Liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in client brokerage accounts. Management believes that funds generated by the operations of subsidiaries will continue to be the primary funding source in meeting its liquidity needs, providing adequate liquidity to meet capital guidelines and net capital requirements of its regulated subsidiaries.

The cash position and cash flows are affected by changes in brokerage client cash balances and the associated amounts required to be segregated under regulatory guidelines. Timing differences between cash and investments actually segregated on a given date and the amount required to be segregated for that date may arise in the ordinary course of business and are addressed by the Group in accordance with applicable regulations. Other factors which affect the cash position and cash flows include investment activity in securities, levels of capital expenditures, acquisition and divestiture activity, banking client deposit activity, brokerage and banking client loan activity, payments of dividends, and repurchases and issuances of shares. The combination of these factors can cause significant fluctuations in the cash position during specific time periods.

Liquidity risk is the risk that an entity will encounter difficulties with raising money in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department by means of monitoring daily liquidity positions.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid securities, inter-bank facilities and cash balances, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

### **Results**

The Group's results for the year are set out on page 12. The net profit for the year attributable to the shareholders of the Group amounted to €78,719,258 (2015: €8,247,426). On 31 December 2016 the total assets of the Group were €4,213,887,780 (2015: €1,909,764,511) and the net assets of the Group were €165,812,243 (2015: €59,042,736).

### **Dividends**

The Board of Directors recommended the payment of a dividend out of 2016 profits however the amount will be decided at the next Annual General Meeting.

### **Share capital**

There were no changes in the share capital of the Company during the year under review.



# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **MANAGEMENT REPORT**

### **Board of Directors**

The members of the Company's Board of Directors as at 31 December 2016 and at the date of this report are presented on page 1. Mr. Lambros Soteriou was appointed director on 28 April 2015.

In accordance with the Company's Articles of Association all Directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

### **Operating Environment of the Group**

#### **(a) Operating environment of the Republic of Cyprus**

Following a long and relatively deep economic recession, the Cyprus economy began to record positive growth in 2015 which accelerated during 2016. The restrictive measures and capital controls which were in place since March 2013 were lifted in April 2015 and on the back of the strength of the economy's performance and the strong implementation of required measures and reforms, Cyprus exited its economic adjustment programme in March 2016. In recognition of the progress achieved on the fiscal front and the economic recovery, as well as the enactment of the foreclosure and insolvency framework, the international credit rating agencies have proceeded with a number of upgrades of the credit ratings for the Cypriot sovereign, and although the rating continues to be "non-investment grade", the Cyprus government has regained access to the capital markets.

The outlook for the Cyprus economy over the medium term remains positive, however, there are downside risks to the growth projections emanating from the high levels of non-performing exposures, uncertainties in the property markets, as well as potential deterioration in the external environment for Cyprus, including continuation of the recession in Russia in conditions of protracted declines in oil prices; weaker than expected growth in the euro area as a result of worsening global economic conditions; slower growth in the UK with a weakening of the pound as a result of uncertainty regarding the result of the Brexit referendum; and political uncertainty in Europe in view of Brexit and the refugee crisis.

#### **(b) Operating environment in Russia**

During 2016 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

The operating environments in Cyprus and in Russia may have a significant impact on the Company's operations and financial position. Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

On the basis of the evaluation performed, the Group's management has concluded that no provisions or impairment charges are necessary. The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the smooth conduct of its operations in the current business and economic environment.

#### **Events after the reporting period**

Any significant events that occurred after the end of the reporting period are described in note 24 to the consolidated financial statements.

#### **Related party transactions**

Disclosed in note 21 of the consolidated financial statements.

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

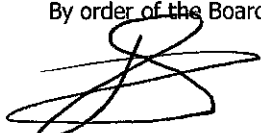
---

## **MANAGEMENT REPORT**

### **Independent Auditors**

The Independent Auditors, Yiallourides & Partners Ltd, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors,



Dimitra Karkalli  
Director

Limassol, 28 April 2017

## **Independent Auditor's Report**

### **To the Members of BrokerCreditService Structured Products Plc**

#### **Report on the Audit of the Consolidated Financial Statements**

##### **Opinion**

We have audited the consolidated financial statements of BrokerCreditService Structured Products Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which are presented in pages 12 to 53 which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

##### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and 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, 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.

##### **Responsibilities of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## **Independent Auditor's Report (continued)**

### **To the Members of BrokerCreditService Structured Products Plc**

The Board of Directors is responsible for overseeing the Group's financial reporting process.

#### **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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Independent Auditor's Report (continued)**

### **To the Members of BrokerCreditService Structured Products Plc**

#### **Report on Other Legal Requirements**

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

#### **Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



**Athos Mallialis**

Certified Public Accountant and Registered Auditor  
for and on behalf of

**Yiallourides & Partners Ltd**  
**Chartered Accountants**

Limassol, 28 April 2017

## BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 €	2015 €
Commission and fee income	5	<b>111,357</b>	-
Dividend income		<b>790,377</b>	138,889
Loan interest income		<b>17,451,645</b>	9,471,793
Net (loss)/gain on trading in financial instruments		<b>(18,783,065)</b>	21,028,842
Net gain/(loss) realised on trading in foreign currencies		<b>74,172,470</b>	(141,218,002)
Net fair value gains/(losses) on financial assets at fair value through profit or loss	15	<b>55,997,089</b>	(17,840,423)
Interest income from bonds		<b>151,145,322</b>	57,125,672
Interest income on reverse repurchase agreements		<b>49,603,821</b>	60,976,395
Interest expense from bonds		<b>(125,099,226)</b>	(48,245,131)
Loan interest expense		<b>(5,223,229)</b>	(7,843,689)
Interest expense on payables under repurchase agreements		<b>(63,524,185)</b>	(53,232,562)
Other operating income		<b>6,678</b>	79,339
Change in fair value of derivative financial instruments		<b>(22,687,984)</b>	58,557,483
Administration and other expenses		<b>(19,984,300)</b>	(9,662,534)
<b>Operating profit/(loss)</b>	6	<b>93,976,770</b>	(70,663,928)
Finance costs	7	<b>(15,257,512)</b>	(27,728)
<b>Profit/(loss) before tax</b>		<b>78,719,258</b>	(8,231,270)
Tax	8	-	(16,156)
<b>Net profit/(loss) for the year</b>		<b>78,719,258</b>	(8,247,426)
<b>Other comprehensive income</b>			
Available-for-sale financial assets - Fair value gains		<b>926,574</b>	463,012
<b>Other comprehensive income for the year</b>		<b>926,574</b>	463,012
<b>Total comprehensive income/(loss) for the year</b>		<b>79,645,832</b>	(7,784,414)

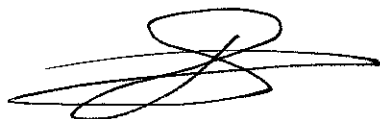
The notes on pages 16 to 57 form an integral part of these consolidated financial statements.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31 December 2016

	Note	2016 €	2015 €
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Available-for-sale financial assets	11	8,037,444	6,156,467
Non-current loans receivable	12	86,352,011	49,053,938
Loans to related companies	21	<u>13,371,518</u>	<u>12,243,832</u>
		<u>107,760,973</u>	<u>67,454,237</u>
<b>Current assets</b>			
Balances due from brokers	13	481,334	3,104,626
Trade and other receivables	14	196,259,686	115,335,087
Receivables from related companies	21	2,880,090,683	1,183,592,525
Financial assets at fair value through profit or loss	15	1,027,355,738	537,291,791
Cash and cash equivalents	17	<u>1,875,883</u>	<u>2,986,245</u>
		<u>4,106,063,324</u>	<u>1,842,310,274</u>
<b>Total assets</b>		<u>4,213,824,297</u>	<u>1,909,764,511</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	25,650	25,650
Other reserves		(5,438,929)	(33,489,178)
Retained earnings		<u>171,225,522</u>	<u>92,506,264</u>
<b>Total equity</b>		<u>165,812,243</u>	<u>59,042,736</u>
<b>Non-current liabilities</b>			
Loans from related companies	21	<u>72,302,053</u>	<u>31,505,179</u>
		<u>72,302,053</u>	<u>31,505,179</u>
<b>Current liabilities</b>			
Trade and other payables	19	587,466,272	273,089,922
Payables to related companies	21	3,297,343,721	1,456,685,430
Financial liabilities at fair value through profit or loss	15	90,900,008	89,425,088
Current tax liabilities	20	-	16,156
		<u>3,975,710,001</u>	<u>1,819,216,596</u>
<b>Total liabilities</b>		<u>4,048,012,054</u>	<u>1,850,721,775</u>
<b>Total equity and liabilities</b>		<u>4,213,824,297</u>	<u>1,909,764,511</u>

On 28 April 2017 the Board of Directors of BrokerCreditService Structured Products Plc authorised these consolidated financial statements for issue.



.....  
Dimitra Karkalli  
Director



.....  
Lambros Soteriou  
Director

The notes on pages 16 to 57 form an integral part of these consolidated financial statements.

## BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Note	Share capital €	Fair value reserve - available-for-sale financial assets €	Translation reserve €	Retained earnings €	Total €
<i>Balance at 1 January 2015</i>		-	-	(33,030,302)	100,753,690	67,723,388
Total comprehensive (loss) for the year		-	-	-	(8,247,426)	(8,247,426)
Issue of share capital	18	25,650	-	-	-	25,650
Translation reserve for the year		-	-	(921,888)	-	(921,888)
Fair value adjustment		-	463,012	-	-	463,012
<b>Balance at 31 December 2015/ 1 January 2016</b>		<b>25,650</b>	<b>463,012</b>	<b>(33,952,190)</b>	<b>92,506,264</b>	<b>59,042,736</b>
Total comprehensive income for the year		-	-	-	78,719,258	78,719,258
Translation reserve for the year		-	-	27,123,675	-	27,123,675
Fair value adjustment		-	926,574	-	-	926,574
<b>Balance at 31 December 2016</b>		<b>25,650</b>	<b>1,389,586</b>	<b>(6,828,515)</b>	<b>171,225,522</b>	<b>165,812,243</b>

The notes on pages 16 to 57 form an integral part of these consolidated financial statements.



# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 €	2015 €
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit/(loss) before tax</b>		<b>78,719,258</b>	(8,231,270)
Adjustments for:			
Exchange difference arising on the translation of financial assets and financial liabilities at fair value through profit or loss		(55,469,075)	61,159,566
Unrealised exchange loss/(profit)		15,112,253	(62,281,291)
Change in fair value of derivative financial instruments		22,687,984	(58,557,483)
Fair value (gains)/losses on financial assets and liabilities at fair value through profit or loss		(58,639,839)	17,671,616
Fair value losses		-	-
Dividend income		(790,377)	(138,889)
Interest income	7	(218,200,788)	(127,752,955)
Interest expense	7	193,847,967	109,321,678
Translation reserve for the year		27,123,675	922,086
		<b>4,391,058</b>	(67,886,942)
<b>Changes in working capital:</b>			
Increase in trade and other receivables		(80,924,599)	(115,335,087)
Decrease/(increase) in balances with brokers		2,623,292	(3,104,626)
Increase in receivables from related companies		(1,696,498,158)	(1,183,592,525)
Increase in financial assets at fair value through profit or loss		(374,260,875)	(160,584,308)
(Increase)/decrease in derivative financial instruments		(23,861,625)	147,982,571
Increase in trade and other payables		314,376,350	273,089,922
Increase in payables to related companies		1,840,658,291	1,056,685,430
<b>Cash used in operations</b>		<b>(13,496,266)</b>	(52,745,565)
Interest received		218,200,788	127,573,950
Dividends received		790,377	138,889
Tax paid		(16,156)	-
<b>Net cash generated from operating activities</b>		<b>205,478,743</b>	74,967,274
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of investments in subsidiaries		-	(1,000)
Loans granted		(38,425,759)	(61,297,770)
Interest received		-	179,095
<b>Net cash used in investing activities</b>		<b>(38,425,759)</b>	(61,119,675)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital		-	23,940
Proceeds from loans from related companies		40,796,874	31,505,179
Unrealised exchange (loss)		(15,112,253)	62,281,291
Interest paid		(193,847,967)	(109,321,678)
<b>Net cash used in financing activities</b>		<b>(168,163,346)</b>	(15,511,268)
<b>Net decrease in cash and cash equivalents</b>		<b>(1,110,362)</b>	(1,663,669)
Cash and cash equivalents at beginning of the year		2,986,245	4,649,914
<b>Cash and cash equivalents at end of the year</b>	17	<b>1,875,883</b>	2,986,245

The notes on pages 16 to 57 form an integral part of these consolidated financial statements.

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **1. Incorporation and principal activities**

#### **Country of incorporation**

The Company BrokerCreditService Structured Products Plc (the "Company") was incorporated in Cyprus on 18 March 2005 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at 116 Gladstonos street, M. Kyprianou Tower, 3rd and 4th floors, 3032 Limassol, Cyprus.

The Company's original name was Gawling Company Limited. On May 14, 2015, it was renamed into BrokerCreditService Structured Products Plc and converted from a private company into a public company.

#### **Principal activities and nature of operations of the Group**

BrokerCreditService Structured Products Plc acts as an investment and financing company and conducts trading operations in the international securities markets (except for the investment activity that requires authorisation and/or license). This includes entering into transactions with market counterparties and related parties that are members of the Group. These transactions include, but are not limited to, repo transactions, loans and transactions in securities in the international capital markets including exchanges and Over-the-Counter ("OTC") markets. The Company also conducts investment activities in different types of bonds of both Russian and international issuers.

BrokerCreditService Structured Products Plc acts as the Group's operational company in Cyprus. In collaboration with other entities which are under common control, it issues structured products and executes various hedging strategies with the purpose of generating margins and minimising risk. Specifically, the Company issues Notes in bearer or registered form (respectively, "Bearer Notes" and "Registered Notes" and, together, the "Notes") under a Euro Medium Term Note Programme, which are to be admitted to the official list of the Irish Stock Exchange and trading on its regulated market (the "Main Securities Market") as well as other and/or further stock exchange(s) or market(s) (including regulated markets). The Company also issues unlisted Notes and/or Notes not admitted to trading on any market.

As of the date hereof, the Group conducts its business through the following operating legal entities. These are Routa Luxury Services Ltd., Flamel Global Limited, Seldthorn Private Equity Limited, Kertina Group Ltd and Botimelo Group Ltd, all of them being wholly owned subsidiaries of Brokercreditservice Structured Products Plc. Each of the these wholly owned subsidiaries is established to carry on any trade or activity whatsoever related to, connected with or involving shares, stock, debentures, debenture stock, bonds, notes, obligations, warrants, options, derivatives, commodities and any other instruments related to equity, debt or commodities of all kinds (except for the investment activity that requires authorisation and/or license).

The ultimate shareholder owning and controlling party is Mr. Oleg Mikhasenko, a Russian individual who is the sole ultimate beneficial owner of the Group.

### **2. Significant accounting policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements unless otherwise stated.

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2016 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments).

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

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

These consolidated financial statements as at and for the year ended 31 December 2016 comprise the Group's first complete set of consolidated financial statements prepared in accordance with IFRS, and IFRS 1 First-time Adoption of International Financial Reporting Standards is applied. The Group has not previously prepared consolidated financial statements, and accordingly, no explanation of the transition to IFRS affecting the reported financial position, financial performance and cash flows is provided.

#### **Functional and presentation currency**

The consolidated financial statements are presented in Euro (€) which is the functional currency of the Group.

#### **Adoption of new and revised IFRSs**

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016. This adoption did not have a material effect on the accounting policies of the Company with the exception of the following:

- Annual Improvements to IFRSs 2012. The basis for conclusions on IFRS13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. This amendment did not result in any changes in the Company's financial statements.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 2. Significant accounting policies (continued)

#### Adoption of new and revised IFRSs (continued)

- Disclosure Initiative Amendments to IAS 1. The Standard was amended to clarify the concept of materiality and explain that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS. As a result of this disclosure initiative, the Company has applied the concept of materiality in disclosures in the financial statements.

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, which are relevant to the Company, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

- IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
  - (i) Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  - (ii) Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - (iii) Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - (iv) Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - (v) IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Adoption of new and revised IFRSs (continued)**

**(continued)**

The Company is currently assessing the impact of the new standard on its financial statements.

- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company is currently assessing the impact of the new standard on its financial statements.
- IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)\*. 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. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.
- IAS 7 (Amendments) "Disclosure Initiative" (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)\*. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company is currently assessing the impact of the amendments on its financial statements.
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)\*. The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a nonmonetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Company is currently assessing the impact of the amendments on its financial statements.

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Adoption of new and revised IFRSs (continued)**

\* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

#### **Basis of consolidation**

Subsidiaries are companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is actually transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The Company has subsidiary undertakings for which section 142(1)(b) of the Cyprus Companies Law Cap. 113 requires consolidated financial statements to be prepared and laid before the Company at the Annual General Meeting. The Group consolidated financial statements comprise the financial statements of the parent company BrokerCreditService Structured Products Plc and the financial statements of the following subsidiaries - Routa Luxury Services Ltd., Flamel Global Limited, Seldthorn Private Equity Limited, Kertina Group Ltd. and Botimelo Group Ltd.

The financial statements of all the Group companies are prepared using uniform accounting policies. All inter-company transactions and balances between Group companies have been eliminated during consolidation.

#### **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Business combinations (continued)**

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

#### **Investments in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Investments in associates (continued)**

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

#### **Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired undertaking at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associates is included in "Investments in associates". Goodwill on acquisitions of investments in joint ventures is included in "investments in joint ventures".

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an undertaking include the carrying amount of goodwill relating to the undertaking sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### **Income recognition**

Income comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. The Group recognises income when the amount of income can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Income earned by the Company is recognised on the following bases:

- **Rendering of services**

Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.



# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Income recognition (continued)**

- **Income from investments in securities**

Dividend from investments in securities is recognised when the right to receive payment is established. Withheld taxes are transferred to profit or loss. Interest from investments in securities is recognised on an accruals basis.

Profits or losses from the sale of investments in securities represent the difference between the net proceeds and the carrying amount of the investments sold and is transferred to profit or loss.

- **Commission and fee income**

Commissions and fees from brokerage activities which are earned on the execution of the underlying transaction are recorded on its completion, being the trade date of the transaction. All other commissions and fees from brokerage activities are recognised based on the applicable service contracts, usually on a time-proportionate basis.

- **Interest income and expense**

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

- **Dividend income**

Dividend income is recognised when the right to receive payment is established.

#### **Foreign currency translation**

**(1) Functional and presentation currency**

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro (€), which is the Group's functional and presentation currency.

**(2) Transactions and balances**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the spot exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Tax**

Income tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date in the country in which the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred tax.

However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

#### **Dividends**

Dividend distribution to the Group's shareholders is recognised in the Group's financial statements in the year in which they are approved by the Group's shareholders.

#### **Sale and repurchase agreements**

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as pledged securities. The corresponding liability is presented within borrowings.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as loans receivable. The difference between the sale and repurchase price is treated as interest income or interest expense and accrued over the life of reverse repo agreements and repo agreements respectively, using the effective interest method.

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Securities lending**

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately.

Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties in which case an obligation to return the securities is recorded at fair value and any fluctuations of the fair value are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in financial liabilities at fair value through profit or loss.

The fixed fee is treated as interest income or interest expense and is accrued over the life of the securities lending agreement.

#### **Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

#### **Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss. When a trade or other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 2. Significant accounting policies (continued)

#### Financial instruments (continued)

##### Loans granted

Loans originated by the Group by providing money directly to the borrower are categorised as loans and are carried at amortised cost. The amortised cost is the amount at which the loan granted is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. All loans are recognised when cash is advanced to the borrower.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

##### Financial assets

###### *(1) Classification*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

- Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Group's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months from the reporting date.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets, unless management intends to dispose of the investment within twelve months of the reporting date.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 2. Significant accounting policies (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

###### *(2) Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on trade-date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs. Equity investments for which fair values cannot be measured reliably are recognised at cost less impairment.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as gains and losses on available-for-sale financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Financial instruments (continued)**

##### **Financial assets (continued)**

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

##### **Financial liabilities at fair value through profit or loss**

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Financial liabilities designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Group's documented investment strategy. They include obligations to deliver financial assets borrowed by a short seller.

Gains or losses arising from changes in the fair value of the "financial liabilities at fair value through profit or loss" category are presented in statement of comprehensive income in the period in which they arise. Coupon interest on financial liabilities at fair value through profit or loss is recognised in profit or loss within "net gains/(losses) on financial instruments at fair value through profit or loss".

##### **Trade and other payables**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

##### **Derivative financial instruments and hedge accounting**

Derivative financial instruments which include Option Contracts, Forward Contracts, Credit Default Swaps and Contracts for Differences on metals, shares, commodities and foreign exchange forward contracts are initially recognised in the statement of financial position at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are determined by reference to third party market values. Derivative financial instruments are recognised in the balance sheet as assets when fair value is positive and as liabilities when fair value is negative. Derivative financial instruments form part of the Group's operating activities. Gains or losses arising from changes in the fair value of derivative financial instruments are presented in profit or loss in the period in which they arise. The Group does not apply hedge accounting.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 2. Significant accounting policies (continued)

#### Financial instruments (continued)

##### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists. For loans and receivables category the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **2. Significant accounting policies (continued)**

#### **Derecognition of financial assets and liabilities**

##### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains 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; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### Financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

#### **Share capital**

Ordinary shares are classified as equity.

#### **Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank.



# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **3. Risk management**

#### **Overview**

The Group's business activities expose it to a variety of financial risks, including market, credit, liquidity risks, and non-financial risks, including technology, operations, legal, and reputational risks. Identification and management of these risks are essential to the success and financial soundness of the Group. This note presents information about the Group's exposure to these risks, its objectives, policies and processes for measuring and managing risks.

Senior management takes an active role in the risk management process and has policies and procedures under which specific business and control units are responsible for identifying, measuring, and controlling various risks. Oversight of risk management is delegated to the Risk Management Department, which is responsible for reviewing and monitoring risk exposures and leading the continued development of risk management policies and practices. The Risk Management Department focuses on these specific areas:

- corporate asset-liability management, focusing on liquidity, capital resources, interest rate risk, and investments.
- credit and market risk, focusing on credit exposures resulting from client borrowing activity, corporate credit and investment activity, and market risk resulting from the Group taking positions in certain securities to facilitate client trading activity.
- information security and privacy, focusing on information security and privacy policies, procedures and controls.
- investment management, focusing on activities in which the Group and its principals operate in an investment advisory capacity.
- operational risk management, focusing on risks relating to potential inadequate or failed internal processes, people and systems, and from external events and relationships (e.g., vendors and business partners).

The Risk Management Department reviews major risk exposures and reports regularly to the Management Board and Board of Directors. The compliance, finance, internal control, legal, and corporate risk management departments assist management in evaluating, testing, and monitoring risk management. Management has written policies and procedures that govern the conduct of business by employees, relationships with clients and the terms and conditions of relationships with product manufacturers. The client related policies address the extension of credit for client accounts, data and physical security, compliance with industry regulation and codes of ethics to govern employee and advisor conduct among other matters.

Risk is inherent in the Group's business. Consequently, despite efforts to identify areas of risk and implement risk management policies and procedures, there can be no assurance that the Group will not suffer unexpected losses due to operating or other risks.

#### **Financial risk management**

##### **Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk arising from the financial instruments it holds. The primary objectives of the financial risk management function are to establish risk limits and then to ensure that exposure to risks stays within these limits. The Group's risk management function is designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date administrative and information systems. The Group regularly reviews its risk management framework to reflect the changes in markets, products and effective best practice. The current structure of the risk framework implemented by the Group aims to manage risks in order to minimise the exposure of itself and its stakeholders to any event, or set of occurrences able to cause adverse effects, while concurrently maximising the efficiency and effectiveness of the Group's operations in accordance with best practice. The purpose of managing risks is the prompt identification of any potential problems before they occur so that risk-handling activities may be planned and invoked as needed to mitigate adverse impacts and allow the Group to achieve overall objectives.

The responsibility for the overall framework of risk governance and management lies with the Board of Directors.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Risk management (continued)

Management recognises that the risk is embedded in all of the Group's activities and for this reason it recognises the need for the continuous identification, assessment, examination, and control of each type of risk. The risk management policies employed by the Group to manage these risks are discussed below:

#### 3.1 Market price risk

Market price risk is the possibility that the Group may suffer a loss resulting from the fluctuations in the values of, or income from equity securities classified at fair value through profit or loss and derivative financial instruments. The Group is exposed to market price risk because of investments held by the Group and classified as financial assets at fair value through profit or loss which are susceptible to market price risk arising from uncertainties about future prices of these investments.

The Group maintains trading securities owned and securities sold but not yet purchased in order to facilitate client transactions and to meet a portion of clearing deposit requirements at various clearing organizations. These securities include debt securities issued by the Russian government, corporate debt securities and equity securities. Changes in the value of trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors. The Group manages its trading inventory by product type.

Activities to facilitate client and proprietary transactions are monitored by the broker dealer support services department. The level of securities deposited is monitored by the settlement area within broker dealer support services department.

Price risk for equity securities is the risk of changes in value of a financial instrument as a result of changes in market prices regardless of whether they have been caused by factors specific for a particular instrument or factors influencing all instruments traded in the market. Price risk for equity securities exists when the Group has a long or short position in an equity financial instrument.

#### Sensitivity analysis

The table below summarizes the impact on the Company's pre-tax profit and on own portfolio market value assuming that the prices of securities held by the Company had increased/decreased by 10% (2015 :10%) with all other variables held constant:

<u>Year-end market value of Company's portfolio:</u>	2016	2015
	€	€
Equity securities - Moscow Stock Exchange	49,211,688	11,807,313
Equity Securities - New York Stock Exchange (NYSE)	242,089,750	112,405,941
Unlisted securities	107,844,612	85,751,806
Shares	7,110,870	5,693,455
	<u>406,256,920</u>	<u>215,658,515</u>

Pre-tax profit would have been increased/decreased by EUR 40,749,199 (2015: +/- EUR 21,565,302) if the prices of securities held by the Company had increased/decreased by 10% (2015: +/- 10%).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group's Board of Directors.

#### 3.2 Interest rate risk

Interest rate risk is the risk that the Group's income or financial instrument portfolio may change due to interest rate fluctuations. The Group takes on exposure to the effects of fluctuations in prevailing market interest rates on its financial position and cash flows. The Group offers its clients overnight cash sweep programs that are interest rate sensitive. While clients earn interest for balances on deposit under the cash sweep programs, the Group earns a fee. These fees are based on prevailing interest rates in the current interest rate environment, but may be adjusted in an increasing or decreasing interest rate environment or for other reasons. Changes in interest rates and fees for the overnight cash sweep programs are monitored by fee and rate setting committee (the FRS committee), which governs and approves any changes to fees. The FRS committee balances financial risk of the cash sweep programs with products that offer competitive client yields.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Risk management (continued)

Interest rate risk management through monitoring of the mismatch of the maturities of interest bearing assets and interest bearing liabilities is supplemented by monitoring the sensitivity of financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100-basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves.

Interest-earning assets are financed primarily by brokerage client cash balances and deposits from banking clients. Non-interest-bearing funding sources include non-interest-bearing brokerage client cash balances and proceeds from stock-lending activities, as well as equity. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. When interest rates fall, the Group may attempt to mitigate some of this negative impact by extending the maturities of assets in investment portfolios to lock in asset yields, and by lowering rates paid to clients on interest-bearing liabilities.

At the reporting date the interest rate profile of interest-bearing financial instruments was as follows:

	2016	2015
	€	€
<i><u>Fixed rate instruments</u></i>		
Financial assets	<b>117,816,989</b>	83,887,549
Financial liabilities	<b>80,611,581</b>	33,946,453
	<b><u>198,428,570</u></b>	<u>117,834,002</u>

#### *Sensitivity analysis*

Any increase/(decrease) in interest rates will have no effect on results and equity of the Group, because, all financial instruments are fixed rate

### 3.3 Credit risk

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. The Group bears credit risk on margin lending activities, securities lending activities, its role as a counterparty in financial contracts and investing activities, the activities of clients, including the execution, settlement, and financing of various transactions on behalf of these clients. These activities are transacted on either a cash or margin basis. The Group seeks to control the risks associated with its customers' activities by requiring each trade to be carried out in accordance with margin policies. Each customer is required to have minimum funds in their account for opening positions, and for maintaining positions. The system automatically monitors each customer's margin requirements in real time, and confirms that every customer has sufficient funds in his or her account before their trades are executed. If at any point in time a customer's trading position does not comply with the applicable margin requirement, the position can be automatically partially or entirely liquidated in accordance with the margin policies and procedures. The Group adjusts its margin requirements if it believes its risk exposure is not appropriate based on market conditions. For collateralised securities transactions involving repurchase and resale agreements the Group is permitted to sell or re-pledge the securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover any short positions.

The Board of Directors has delegated responsibility for the oversight of credit risk to the Group's Risk Management Committee. The Risk Management Committee is responsible for management of credit risk, including formulating credit policies, covering collateral requirements, adjusting margin requirements for certain securities, credit assessment, reviewing and assessing credit risk, limiting concentrations of exposure to counterparties, and by issuer, credit rating bands, market liquidity and country (for trading assets), and reviewing compliance of business units with agreed exposure limits. Collateral arrangements relating to margin loans, securities lending agreements, and resale agreements include provisions that require additional collateral in the event that market fluctuations result in declines in the value of collateral received. The credit risk exposure related to loans to banking clients is actively managed through individual and portfolio reviews performed by management. Management regularly reviews asset quality including concentrations, delinquencies, non-accrual loans, charge-offs, and recoveries. All are factors in the determination of an appropriate allowance for loan losses, which is reviewed quarterly by senior management.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Risk management (continued)

#### 3.3 Credit risk (continued)

The Group has exposure to credit risk due to its obligation to settle transactions with clearing corporations, mutual funds, and other financial institutions even if its client or a counterparty fails to meet its obligations to the Group. The Company acts as the investment manager for a number of mutual and real estate funds. Although it has no obligation to do so, the Group may decide for competitive reasons to provide credit, liquidity or other support to managed funds in the event of significant declines in valuation of fund holdings or significant redemption activity that exceeds available liquidity. Such support could cause the Group to take significant charges and could reduce liquidity. If the Group chose not to provide credit, liquidity or other support in such a situation, the Group could suffer reputational damage and its business could be adversely affected.

The Group is subject to concentration risk if it extends large loans to or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry). Receivables from and payables to clients and securities borrowing and lending activities are conducted with a large number of clients and counterparties and potential concentration is carefully monitored. Management seeks to limit this risk through careful review of the underlying business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

The brokerage IT system automatically monitors the compliance with limits on each customer trading in the stock market as well as manual control on customers with transactions over-the-counter. In case of breach of limits the system automatically closes the credit position through disposal of pledged financial instruments (mainly quoted securities). The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis. At the transaction level, an assessment of a borrower's ability to service the proposed level of debt is performed. Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques. At the portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit. Meanwhile, the Group should comply with statutory ratios on credit concentration risk.

The analysis by credit quality of financial assets is mainly based on Standard and Poor's rating and other ratings converted to the nearest equivalent to the Standard and Poor's rating scale. Pursuant to the policy on limits, the exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The Company defines its risk appetite by approving a policy on limits, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2016	2015
	€	€
Available-for-sale financial assets	<b>8,037,444</b>	6,156,467
Loans receivable	<b>86,352,011</b>	49,053,938
Loans receivables from related parties	<b>13,371,518</b>	12,243,832
Trade and other receivables	<b>105,515,585</b>	25,910,528
Cash at bank	<b>1,875,883</b>	2,986,245
Receivables from related parties	<b>2,879,555,492</b>	1,183,592,525
	<b><u>3,094,707,933</u></b>	<b><u>1,279,943,535</u></b>

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **3. Risk management (continued)**

#### **3.4 Liquidity risk**

The Group conducts substantially all of its business through its wholly-owned subsidiaries. The capital structure is designed to provide each subsidiary with capital and liquidity to meet its operational needs and regulatory requirements. Liquidity needs are generally met through cash generated by its subsidiaries, as well as cash provided by the shareholder, if required. The Group maintains excess liquidity in the form of overnight cash deposits and short-term investments to cover daily funding needs and to support growth in the business. Generally, the Group does not hold liquidity at its subsidiaries in excess of amounts deemed sufficient to support the subsidiaries' operations, including any regulatory capital requirements. Liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in client brokerage accounts. Management believes that funds generated by the operations of subsidiaries will continue to be the primary funding source in meeting its liquidity needs, providing adequate liquidity to meet capital guidelines and net capital requirements of its regulated subsidiaries.

The cash position and cash flows are affected by changes in brokerage client cash balances and the associated amounts required to be segregated under regulatory guidelines. Timing differences between cash and investments actually segregated on a given date and the amount required to be segregated for that date may arise in the ordinary course of business and are addressed by the Group in accordance with applicable regulations. Other factors which affect the cash position and cash flows include investment activity in securities, levels of capital expenditures, acquisition and divestiture activity, banking client deposit activity, brokerage and banking client loan activity, payments of dividends, and repurchases and issuances of shares. The combination of these factors can cause significant fluctuations in the cash position during specific time periods.

Liquidity risk is the risk that an entity will encounter difficulties with raising money in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department by means of monitoring daily liquidity positions.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid securities, inter-bank facilities and cash balances, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Risk management (continued)

#### 3.4 Liquidity risk (continued)

<u>31 December 2016</u>		Contractual cash	3 months or less	3-12 months	1-5 years	More than
	Carrying amounts	flows				5 years
<u>Non-derivative financial instruments:</u>	€	€	€	€	€	€
Trade and other payables	587,367,918	587,367,918	260,576,815	294,277,421	28,885,915	3,627,767
Payables to related parties	3,297,407,203	3,297,407,203	3,290,140,373	1,648,841	5,617,989	-
Loans from related companies	72,302,053	72,302,053	8,058,889	-	35,757,846	28,485,318
<u>Derivative financial instruments:</u>						
Forward contracts	470,619,362	470,619,362	10,735,980	459,883,382	-	-
Options	6,891,246	6,891,246	-	6,891,246	-	-
Futures	70,005	70,005	-	70,005	-	-
	<b><u>4,434,657,787</u></b>	<b><u>4,434,657,787</u></b>	<b><u>3,569,512,057</u></b>	<b><u>762,770,895</u></b>	<b><u>70,261,750</u></b>	<b><u>32,113,085</u></b>
<u>31 December 2015</u>		Contractual cash	3 months or less	3-12 months	1-5 years	More than
	Carrying amounts	flows				5 years
<u>Non-derivative financial instruments:</u>	€	€	€	€	€	€
Trade and other payables	273,034,131	273,034,131	133,394,999	109,648,544	27,763,935	2,226,653
Payables to related parties	1,456,685,430	1,456,685,430	1,176,641,960	279,789,308	254,162	-
Loans from related companies	31,505,179	31,505,179	-	-	31,505,179	-
<u>Derivative financial instruments:</u>						
Forward contracts	303,199,518	303,199,518	-	303,199,518	-	-
Options	11,586,140	11,586,140	-	11,586,140	-	-
Futures	264,975	264,975	-	264,975	-	-
	<b><u>2,076,275,373</u></b>	<b><u>2,076,275,373</u></b>	<b><u>1,310,036,959</u></b>	<b><u>704,488,485</u></b>	<b><u>59,523,276</u></b>	<b><u>2,226,653</u></b>

#### 3.5 Currency risk

Currency risk arises in respect of those recognised monetary financial assets and liabilities that are not in the functional currency of the respective group entity. Foreign currency risk is managed at the Group level by monitoring limits daily on the level of exposure by each currency. Management has a policy to require Group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to hedge their entire foreign exchange risk exposure with the Group Treasury. Nevertheless, the Group does not qualify for hedge accounting in accordance with IAS 39. In addition, the Group manages foreign currency risk by matching its principal cash outflows to the currency in which the principal cash inflows are denominated. This is generally achieved by obtaining financing in the relevant currency and by entering into forward foreign exchange contracts. The Group operates internationally and is exposed to foreign exchange risk, primarily with respect to the United States Dollar and the Russian Rouble.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Risk management (continued)

Borrowings and lending are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances. In respect of monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when necessary to address short-term imbalances.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016	2015	2016	2015
	€	€	€	€
Euro	<b>214,504,608</b>	17,575,344	<b>209,408,355</b>	71,145,326
United States Dollars	<b>2,233,811,388</b>	1,243,700,720	<b>2,412,987,894</b>	1,445,333,104
British Pounds	<b>4,592,835</b>	440,091	<b>2,608,026</b>	3,255,974
Russian Roubles	<b>1,595,155,998</b>	577,276,713	<b>1,603,106,139</b>	350,938,806
Swiss francs	-	39,202	<b>1,106,857</b>	26,575,932
Japanese yen	-	-	<b>35,520</b>	33,728
Other currencies	-	155	<b>583,554</b>	791,892
	<b><u>4,048,064,829</u></b>	<u>1,839,032,225</u>	<b><u>4,229,836,345</u></b>	<u>1,898,074,762</u>

#### Sensitivity analysis

A fluctuation of the United States Dollar or the Russian Rouble against the Euro at the reporting date as disclosed below would have an equal and opposite impact on the profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant.

	Change in currency rate		Effect on pre-tax profit	
	2016	2015	2016	2015
	%	%	€	€
United States Dollars	<b>10</b>	10	<b>17,917,651</b>	20,163,238
Russian Roubles	<b>(20)</b>	30	<b>(1,590,028)</b>	(67,901,372)
British Pounds	<b>20</b>	20	<b>(396,962)</b>	563,177

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

### 3.6 Capital risk management

The objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or raise debt.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken by senior management.

# BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Risk management (continued)

#### 3.7 Fair value measurement

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

Management applies judgement in categorising financial instruments using the fair value hierarchy. The significance of a valuation input is assessed against the fair value measurement in its entirety. The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016 and 31 December 2015:

<u>31 December 2016</u>	Level 1 €	Level 2 €	Level 3 €	Total €
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	919,503,811	107,851,927	-	1,027,355,738
Derivative financial assets	1,574,484	-	-	1,574,484
<b>Total</b>	<b>921,078,295</b>	<b>107,851,927</b>	<b>-</b>	<b>1,028,930,222</b>
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	90,900,008	-	90,900,008
Derivative financial liabilities	250,190,401	227,061,525	-	477,251,926
<b>Total</b>	<b>250,190,401</b>	<b>317,961,533</b>	<b>-</b>	<b>568,151,934</b>
31 December 2015	Level 1 €	Level 2 €	Level 3 €	Total €
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	452,218,900	85,072,892	-	537,291,792
Derivative financial assets	957,538	-	-	957,538
<b>Total</b>	<b>453,176,438</b>	<b>85,072,892</b>	<b>-</b>	<b>538,249,330</b>
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	89,425,088	-	89,425,088
Derivative financial liabilities	148,450,568	167,063,354	-	315,513,922
<b>Total</b>	<b>148,450,568</b>	<b>256,488,442</b>	<b>-</b>	<b>404,939,010</b>



# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **3. Risk management (continued)**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The fair values of financial assets and financial liabilities are determined as follows. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise listed equity securities.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Risk management (continued)

#### 3.8 Offsetting financial assets and financial liabilities

31 December 2016

	(A) Gross amounts of recognised financial assets	(B) Gross amounts of recognised financial liabilities	(C=A-B) Net amounts of assets/ (liabilities) presented in the Statement of Financial Position	(D) Other amounts subject to an enforceable master netting arrangement (not off set)	(E=C-D) Total net amounts
	€	€	€	€	€
Forward contracts		470,295,064	470,295,064		470,295,064
Options	25,804	2,129,494	2,103,690		2,103,690
Futures	38,018	3,316,705	3,278,687		3,278,687
REPO (reverse)	699,532,907		(699,532,907)		(699,532,907)
REPO (direct)		1,126,716,901	1,126,716,901		1,126,716,901
Shares	407,183,494	17,946,967	(389,236,526)		(389,236,526)
Bonds	628,215,418	72,953,041	(555,262,378)		(555,262,378)
Receivables	2,390,346,809		(2,390,346,809)		(2,390,346,809)
Payables		2,296,506,308	2,296,506,308		2,296,506,308
Loans	110,086,842	81,549,179	(28,537,663)		(28,537,663)
	<b>4,235,429,292</b>	<b>4,071,413,660</b>	<b>164,015,632</b>		<b>164,015,632</b>

31 December 2015

	(A) Gross amounts of recognised financial assets	(B) Gross amounts of recognised financial liabilities	(C=A-B) Net amounts of assets/ (liabilities) presented in the Statement of Financial Position	(D) Other amounts subject to an enforceable master netting arrangement (not off set)	(E=C-D) Total net amounts
	€	€	€	€	€
Forward contracts		303,624,319	303,624,319		303,624,319
Options		11,889,603	11,889,603		11,889,603
Futures	957,538		(957,538)		(957,538)
REPO (reverse)	820,049,589		(820,049,589)		(820,049,589)
REPO (direct)		933,062,019	933,062,019		933,062,019
Shares	216,113,114	18,499,371	(197,613,744)		(197,613,744)
Bonds	327,142,875	70,727,741	(256,415,134)		(256,415,134)
Receivables	475,773,911		(475,773,911)		(475,773,911)
Payables		501,177,528	501,177,528		501,177,528
Loans	86,529,972	31,505,179	(55,024,793)		(55,024,793)
<b>Total:</b>	<b>1,926,566,998</b>	<b>1,870,485,759</b>	<b>56,081,239</b>		<b>56,081,239</b>

# **BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **3. Risk management (continued)**

### **4. Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the next page.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 4. Critical accounting estimates and judgements (continued)

- **Income taxes**

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Fair value measurement of financial instruments**

The Group uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

In reaching estimates of fair value management judgment needs to be exercised. The level of management judgment required in establishing fair value of financial instruments for which there is a quoted price in an active market is usually minimal. Similarly, there is little subjectivity or judgment required for instruments valued using valuation models which are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those instruments valued using specialized models and where some or all of the parameter inputs are less liquid or less observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modelling techniques. In particular, where data is obtained from infrequent market transactions then extrapolation and interpolation techniques must be applied. Further, some valuation adjustments may require the exercise of management judgment to achieve fair value. Changes in the management's assumptions could affect reported fair values.

When applicable, the Group provides a sensitivity analysis of the impact upon the level 3 financial instruments of using a reasonably possible alternative for the unobservable parameter. The determination of reasonably possible alternatives requires significant management judgment. Please refer to Note "3.7 Fair value estimation" for more information.

- **Impairment of available-for-sale financial assets**

The Group follows the guidance of IAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 4. Critical accounting estimates and judgements (continued)

#### • Initial recognition of related party transactions

In the normal course of business, the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Receivables from/ payable to related parties are stated at their transacted values as they are on demand. Management believes that their fair value is not materially different from their transacted values.

### 5. Commission and fee income

	2016	2015
	€	€
Rendering of services	42,601	-
Commissions receivable	<u>68,756</u>	-
	<u><b>111,357</b></u>	-

### 6. Operating profit/(loss)

	2016	2015
	€	€
Operating profit/(loss) is stated after charging the following items:		
Auditors' remuneration - current year	72,449	78,602
Auditors' remuneration - prior years	<u>5,624</u>	-

### 7. Finance income/cost

	2016	2015
	€	€
<b>Finance income</b>		
Interest income from margin calls	-	179,095
Unrealised foreign exchange profit	-	<u>62,281,291</u>
	-	<u><b>62,460,386</b></u>
<b>Finance costs</b>		
<b>Interest expense</b>		
Interest on taxes	<b>1,327</b>	296
<b>Sundry finance expenses</b>		
Bank charges	<b>20,007</b>	13,188
<b>Net foreign exchange losses</b>		
Realised foreign exchange loss	<b>123,925</b>	14,244
Unrealised foreign exchange loss	<u><b>15,112,253</b></u>	-
	<u><b>15,257,512</b></u>	<u><b>27,728</b></u>

## BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

---

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

#### 8. Tax

	2016	2015
	€	€
Corporation tax - current year	-	16,156
<b>Charge for the year</b>	<b>-</b>	<b>16,156</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2016	2015
	€	€
Profit/(loss) before tax	<b>78,719,258</b>	(8,231,270)
Tax calculated at the applicable tax rates	<b>9,839,907</b>	(1,028,909)
Tax effect of expenses not deductible for tax purposes	-	4,249,299
Tax effect of allowances and income not subject to tax	<b>(9,839,907)</b>	553,387
Tax effect of tax losses brought forward	-	(3,757,621)
<b>Tax charge</b>	<b>-</b>	<b>16,156</b>

#### 8.1 Tax recognised in other comprehensive income

	2016	2015
	€	€
<b>Total income tax recognised in other comprehensive income</b>	<b>-</b>	<b>-</b>

The corporation tax rate is 12,5% (2015:12,5%).

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 17%.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 9. Financial instruments by category

31 December 2016

	Available-for-sale financial assets	Assets at fair value through profit or loss	Loans and receivables	Total
	€	€	€	€
<b>Assets as per consolidated statement of financial position:</b>				
Trade and other receivables (excluding prepayments, deferred expenses and statutory balances)	-	-	2,986,032,145	2,986,032,145
Loans granted	-	-	99,723,529	99,723,529
Financial assets	8,037,444	-	-	8,037,444
Cash and bank balances (excluding cash in hand)	-	-	1,875,883	1,875,883
Balances due from brokers	-	-	1,080,008	1,080,008
Derivative financial assets	-	-	63,822	63,822
Financial assets at fair value through profit or loss	-	1,027,410,856	-	1,027,410,856
<b>Total</b>	<b>8,037,444</b>	<b>1,027,410,856</b>	<b>3,088,775,387</b>	<b>4,124,223,687</b>

	Borrowings and other financial liabilities	Total
	€	€
<b>Liabilities as per consolidated statement of financial position:</b>		
Borrowings	72,302,053	72,302,053
Trade and other payables	3,543,220,113	3,543,220,113
Derivative financial liabilities	245,432,898	245,432,898
<b>Total</b>	<b>3,860,955,064</b>	<b>3,860,955,064</b>

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 9. Financial instruments by category (continued)

31 December 2015

	Available-for-sale financial assets €	Assets at fair value through profit or loss €	Loans and receivables €	Total €
Assets as per consolidated statement of financial position:				
Trade and other receivables (excluding prepayments, deferred expenses and statutory balances)	-	-	1,202,830,344	1,202,830,344
Loans granted	-	-	61,297,770	61,297,770
Financial assets	6,156,467	-	-	6,156,467
Cash and bank balances (excluding cash in hand)	-	-	2,986,245	2,986,245
Balances due from brokers	-	-	3,104,626	3,104,626
Derivative financial assets	-	-	8,768,804	8,768,804
Financial assets at fair value through profit or loss	-	526,610,573	-	526,610,573
	<u>6,156,467</u>	<u>526,610,573</u>	<u>1,278,987,789</u>	<u>1,811,754,829</u>

	Borrowings and other financial liabilities €	Total €
<b>Liabilities as per consolidated statement of financial position:</b>		
Borrowings	31,505,179	31,505,179
Trade and other payables	35,159,004	35,159,004
Derivative financial liabilities	137,518,503	137,518,503
	<u>204,182,686</u>	<u>204,182,686</u>

### 10. Credit quality of financial assets

The credit quality of financials assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	2016 €	2015 €
<b>Fully performing trade and other receivables</b>		
Counterparties without external credit rating:		
Group 1	261,555	13,434
Group 2	786,878	194,512
Group 3	3,094,365,929	1,280,275,824
	<u>3,095,414,362</u>	<u>1,280,483,770</u>
<b>Total fully performing trade and other receivables</b>	<u>3,095,414,362</u>	<u>1,280,483,770</u>
Fully performing loans receivable		
Group 1	94,975,984	72,950,255
Group 2	611,068,641	247,783,290
	<u>706,044,625</u>	<u>320,733,545</u>



# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 10 Credit quality of financial assets (continued)

#### Cash at bank and short term bank deposits

Caa1	255,117	43,961
Caa2	10,112	775,290
Not rated - Internally assessed as adequately stable	<u>1,610,654</u>	<u>2,166,994</u>
	<u><b>1,875,883</b></u>	<u><b>2,986,245</b></u>

Group 1 - customers with no history of default.

Group 2 - companies within the group, common control companies and associates with no defaults in the past.

Group 3 - brokers with no history of default.

None of the financial assets that are fully performing has been renegotiated.

### 11. Available-for-sale financial assets

	<b>2016</b>	2015
	€	€
Balance at 1 January	6,156,467	6,639,369
Exchange differences	954,403	(945,914)
Revaluation difference transferred to equity	<u>926,574</u>	<u>463,012</u>
<b>Balance at 31 December</b>	<u><b>8,037,444</b></u>	<u><b>6,156,467</b></u>

	Fair values 2016	Cost 2016	Fair values 2015	Cost 2015
	€	€	€	€
Non-listed securities	<u>8,037,444</u>	<u>7,110,870</u>	<u>6,156,467</u>	<u>5,693,455</u>
	<u><b>8,037,444</b></u>	<u><b>7,110,870</b></u>	<u><b>6,156,467</b></u>	<u><b>5,693,455</b></u>

Available-for-sale financial assets, comprising principally marketable equity securities, are fair valued annually at the close of business on 31 December. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices. For other investments, fair value is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying assets. Equity investments for which fair values cannot be measured reliably are recognised at cost less impairment.

Available-for-sale financial assets are classified as non-current assets, unless they are expected to be realised within twelve months from the reporting date or unless they will need to be sold to raise operating capital.

### 12. Non-current loans receivable

	<b>2016</b>	2015
	€	€
Loans receivable	<u>86,352,011</u>	<u>49,053,938</u>
	<u><b>86,352,011</b></u>	<u><b>49,053,938</b></u>

The loans are repayable as follows:

	<b>2016</b>	2015
	€	€
Between one and five years	<u>86,352,011</u>	<u>49,053,938</u>

The exposure of the Group to credit risk in relation to loans receivable is reported in note 3 of the consolidated financial statements.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 12. Non-current loans receivable (continued)

The effective interest rates on receivables (current and non-current) were as follows:

	2016	2015
Loans receivable	0.90-13%	0.90-13%
Loans to related companies	1%	1-11.50%

### 13. Balances due from brokers

	2016	2015
	€	€
Balances due from brokers		
Margin accounts	<u>481,334</u>	<u>3,104,626</u>
	<u>481,334</u>	<u>3,104,626</u>

### 14. Trade and other receivables

	2016	2015
	€	€
Trade receivables	103,940,973	24,957,080
Derivative financial assets (Note 16)	1,574,612	953,448
Deferred expenses	90,739,732	89,424,559
Refundable VAT	<u>4,369</u>	<u>-</u>
	<u>196,259,686</u>	<u>115,335,087</u>

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

The exposure of the Group to credit risk and impairment losses in relation to trade and other receivables is reported in note 3 of the consolidated financial statements.

### 15. Financial instruments at fair value through profit or loss

<b>Financial assets</b>		2016	2015
		€	€
Balance at 1 January		537,291,791	314,994,076
Additions		6,145,860,409	6,764,809,209
Disposals		(5,771,599,534)	(6,604,224,901)
Change in fair value		58,774,544	(17,671,616)
Exchange differences		<u>57,028,528</u>	<u>79,385,023</u>
<b>Balance at 31 December</b>		<u>1,027,355,738</u>	<u>537,291,791</u>
<b>Financial liabilities</b>		2016	2015
		€	€
Balance at 1 January		89,425,088	65,180,183
Additions		2,835,538,626	2,747,276,301
Disposals		(2,836,712,267)	(2,740,310,939)
Change in fair value		134,705	-
Exchange differences		<u>2,513,856</u>	<u>17,279,543</u>
<b>Balance at 31 December</b>		<u>90,900,008</u>	<u>89,425,088</u>

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 15. Financial instruments at fair value through profit or loss (continued)

Financial assets designated as at fair value through profit or loss are analysed as follows:

	2016	2015
	€	€
<b>Financial assets at fair value through profit or loss</b>		
Equity securities - Moscow Stock Exchange	49,211,689	11,807,313
Equity securities - New York Stock Exchange (NYSE)	242,089,750	111,937,756
Unlisted securities	107,844,612	85,751,485
Shares	620,172,243	6,156,467
Debt securities - Bonds	<u>8,037,444</u>	<u>321,638,770</u>
	<b><u>1,027,355,738</u></b>	<b><u>537,291,791</u></b>
<b>Financial liabilities at fair value through profit or loss</b>		
Equity securities - Moscow Stock Exchange	(385,326)	-
Equity securities - New York Stock Exchange (NYSE)	-	(8,413)
Short selling securities	(86,181,283)	(89,227,111)
Debt securities - Bonds	<u>(4,333,399)</u>	<u>(189,564)</u>
	<b><u>(90,900,008)</u></b>	<b><u>(89,425,088)</u></b>

The carrying amounts of the above financial assets are classified as follows:

	2016	2015
	€	€
Financial assets at fair value through profit or loss - Held for trading	<u>1,027,355,738</u>	<u>537,291,791</u>
Financial liabilities at fair value through profit or loss - Held for trading	<u>(90,900,008)</u>	<u>(89,425,088)</u>

In the statement of cash flows, financial instruments at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital. In the statement of profit or loss and other comprehensive income, changes in fair values of financial assets at fair value through profit or loss are recorded in operating income.

### 16. Derivative financial instruments

The fair values of the Group's derivative financial instruments are analysed as follows:

	Assets	Liabilities	Assets	Liabilities
	2016	2016	2015	2015
	€	€	€	€
Trading derivatives:				
Foreign currency forward contracts	-	3,087,566	-	1,388,619
Other forward contracts	-	467,531,796	-	301,810,899
Futures	1,548,756	70,005	63,598	264,975
Options	<u>25,855</u>	<u>6,891,246</u>	<u>889,849</u>	<u>11,586,140</u>
	<b><u>1,574,612</u></b>	<b><u>477,580,613</u></b>	<b><u>953,448</u></b>	<b><u>315,050,633</u></b>

The split between current and non-current derivative financial instruments is as follows:

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

<b>31 December 2016</b>	<b>Assets</b>	<b>Liabilities</b>
	€	€
Current	1,574,612	477,580,613
Non-current		
	<u>1,574,612</u>	<u>477,580,613</u>

31 December 2015	Assets	Liabilities
	€	€
Current	953,448	315,050,633
Non-current		
	<u>953,448</u>	<u>315,050,633</u>

Derivative financial assets are included in the Trade and other Receivables (Note 14) while Derivative financial liabilities are included in the Trade and other payables (Note 19) and Payables to related parties (Note 21) in the Statement of financial position.

Derivative financial instruments are presented within the section of operating activities as part of changes in working capital in the statement of cash flows. Changes in the fair value of derivative financial instruments are recorded on the face of the statement of comprehensive income.

### 17. Cash and cash equivalents

Cash balances are analysed as follows:

	2016	2015
	€	€
Cash at bank	<u>1,875,883</u>	2,986,245
	<u>1,875,883</u>	<u>2,986,245</u>

### Cash and cash equivalents by currency:

	2016	2015
	€	€
Euro	311,583	9,845
United States Dollars	1,418,271	1,908,446
Russian Roubles	143,758	1,067,744
British pounds	<u>2,271</u>	210
	<u>1,875,883</u>	<u>2,986,245</u>

The exposure of the Group to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 3 of the consolidated financial statements.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 18. Share capital

	2016 Number of shares	2016 €	2015 Number of shares	2015 €
<b>Authorised</b>				
Ordinary shares of €1.71 each	<u>15,000</u>	<u>25,650</u>	15,000	25,650
<b>Issued and fully paid</b>				
Balance at 1 January	15,000	25,650	15,000	-
Issue of shares	-	-	-	25,650
<b>Balance at 31 December</b>	<u>15,000</u>	<u>25,650</u>	<u>15,000</u>	<u>25,650</u>

#### Authorised capital

Upon incorporation on 18 March 2005 the Company issued to the subscribers of its Memorandum of Association - ordinary shares of €1 each at par.

On 28 April 2015, the Company issued 14,000 additional ordinary shares with a nominal value of €1.71 each as fully paid up. The Company's issued share capital is now increased from €1,710 divided into 1,000 ordinary shares of €1.71 each, to €25,650 divided into 15,000 of €1.71 each.

#### Issued share capital

On 28 April 2015, the Company issued 14,000 additional ordinary shares with a nominal value of €1.71 each as fully paid up. The Company's issued share capital is now increased from €1,710 divided into 1,000 ordinary shares of €1.71 each, to €25,650 divided into 15,000 of €1.71 each.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 19. Trade and other payables

	2016	2015
	€	€
Trade payables	213,442,784	167,780,798
Derivative financial liabilities (Note 16)	279,938,461	4,896,709
Accruals	98,355	55,791
Other payables	100	-
Deferred income	93,986,573	100,356,624
	<u>587,466,273</u>	<u>273,089,922</u>

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

### 20. Current tax liabilities

	2016	2015
	€	€
Corporation tax	-	16,156
	<u>-</u>	<u>16,156</u>

### 21. Related party transactions

Until 2016, the Company was a wholly owned subsidiary of BCS Holding International Limited (previously known as Amazon United Limited) incorporated and domiciled in the British Virgin Islands as a holding company. In 2016, BCS Holding International Limited was liquidated and a new top level holding company was introduced to the Group, known as FG BCS Limited whose registered office is at Prevezis 13, 1st floor, Office 101, 1065, Nicosia, Cyprus. The new holding company is now the direct and ultimate holding company of BrokerCreditService Structured Products Plc.

The ultimate shareholder owning and controlling party is Mr. Oleg Mikhasenko, a Russian individual who is the sole ultimate beneficial owner of the Group.

The following transactions were carried out with related parties:

#### 21.1 Sales of services and other net gains

Name	Nature of transactions	2016	2015
		€	€
BrokerCreditService (Cyprus) Limited	Interest income on reverse repos	28,937,621	60,976,395
	Interest income on overnight loans receivable	603,063	991,351
	Net fair value gains on financial instruments at fair value through profit or loss	56,923,663	-
	Net gain on trading in financial instruments	-	70,750,386
BCS Prime Brokerage Limited	Net gain on trading in financial instruments	-	2,897,268
	Interest income on reverse repos	57,431	8
BCS LLC	Interest income on loans receivable	7	-
BCS Holding International Ltd	Interest income on loans receivable	-	154,757
FG BCS Ltd	Interest income on loans receivable	94	11
BCS-Forex Limited	Interest income on loans receivable	50	1,637
Oleg Mikhasenko	Interest income on loans receivable	12,138,338	5,903,935
		<u>98,660,267</u>	<u>141,675,748</u>

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 21. Related party transactions (continued)

#### 21.2 Directors' remuneration

The remuneration of Directors and other members of key management was as follows:

	2016	2015
	€	€
Directors' remuneration	<u>3,000</u>	<u>3,000</u>
	<u>3,000</u>	<u>3,000</u>

#### 21.3 Purchases of services and other net losses

<u>Name</u>	<u>Nature of transactions</u>	2016	2015
		€	€
BrokerCreditService (Cyprus) Limited	Brokerage and other services	6,355,284	3,068,614
	Interest expense on repurchase agreements	45,235,576	58,273,868
	Net losses on trading in financial instruments	10,777,645	-
BCS Prime Brokerage Limited	Brokerage and other services	2,268,951	93,654
	Net losses on trading in financial instruments	3,885,495	-
	Interest expense on repurchase agreements	192,632	17,956
BCS LLC	Brokerage and other services	5,883	-
		<u>68,721,466</u>	<u>61,454,092</u>

#### 21.4 Receivables from related parties

<u>Name</u>	<u>Nature of transactions</u>	2016	2015
		€	€
BrokerCreditService (Cyprus) Limited	Finance	17,870,275	23,610,507
	Balances due from brokers	92,619,423	281,653,969
	Receivables under reverse repurchase agreements	2,757,146,824	870,821,598
BCS Prime Brokerage Ltd	Balances due from brokers	12,453,939	7,506,451
	Trade	222	-
		<u>2,880,090,683</u>	<u>1,183,592,525</u>

#### 21.5 Loans to related parties

	2016	2015
	€	€
BCS-Forex Limited	5,168	5,118
Oleg Mikhasenko	<u>13,366,350</u>	<u>12,238,714</u>
	<u>13,371,518</u>	<u>12,243,832</u>

The loan to related company BCS-Forex Limited was provided with interest rate at 1%, and the repayment date was set on 20/08/2017.

# BROKERCREDITSERVICE STRUCTURED PRODUCTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

### 21. Related party transactions (continued)

#### 21.6 Payables to related parties

Name	Nature of transactions	2016	2015
		€	€
BrokerCreditService (Cyprus) Limited	Finance	<b>188,356</b>	669,740
	Payables under repurchase agreements	<b>3,069,803,556</b>	837,154,346
	Derivative financial liabilities	<b>197,642,152</b>	310,153,924
	Balances due to brokers	<b>29,709,657</b>	308,706,540
BCS Prime Brokerage Ltd	Balances due to brokers	-	880
		<b><u>3,297,343,721</u></b>	<b><u>1,456,685,430</u></b>

#### 21.7 Loans from related companies

Name	2016	2015
	€	€
BrokerCreditService (Cyprus) Limited	<b><u>72,302,053</u></b>	31,505,179
	<b><u>72,302,053</u></b>	<u>31,505,179</u>

The loans from related company BrokerCreditService (Cyprus) Limited carry interest between 4 and 25% per annum and they are repayable not later than 12/07/2019 (except for one loan which its repayment date is the 31/12/2049).

Loans from related companies include Credit Linked Notes issued in Russian Roubles of a total amount of EUR 23,506,882 (2015: EUR 13,013,373 including interest payable of EUR 1,047,300 (2015: EUR 465,881)). Interest with respect to the Credit Linked Notes is at a fixed rate of 12.5% per annum payable semi-annually and the maturity dates of the Notes issued is on 10 October 2019.

Loans from related companies also include Index Linked Perpetual Notes issued in United States Dollars of a total amount of EUR 47,433,830 (2015: EUR 18,491,806) including interest payable of EUR 314,041.75 (2015: EUR 121,272). Interest with respect to the Index Linked Perpetual Notes is at a fixed rate of 4% for the year. The Notes have no fixed maturity date. The Notes will redeem on the later of (i) the date falling five (5) Business Days following the final Optional Redemption Date; and (ii) the date falling five (5) Business Days following the date on which the Issuer notifies the Fiscal Agent that the Hedging Entity has received in full the net proceeds of its liquidation and/or redemption of the Hedging Assets. The rate of return of the Notes is linked to the bond index dynamics.

During the year ended 31 December 2016 the Company issued the following Notes:



## BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

#### 21. Related party transactions (continued)

ISIN	XS1434175730	XS1434672280
Currency	RUR	USD
Tranches	500,000,000	30,000,000
Nature of the Notes issued	Credit Linked Notes	Index Linked Perpetual Notes
Interest rates	12,5% per annum payable semi-annually - Fixed rate	4 % per cent for the period - Fixed Rate
Interest Payment Dates	10 October 2016, 10 April 2017, 10 October 2017, 10 April 2018, 10 October 2018, 10 April 2019 and 10 October 2019	23 June and 23 December in each year, from and including 23 June 2016, subject to adjustment in accordance with the Following Business Day Convention.
Maturity date	10 October 2019 or if that is not a Business Day the immediately succeeding Business Day	The Notes have no fixed Maturity Date. The Notes will redeem on the later of (i) the date falling five (5) Business Days following the final Optional Redemption Date; and (ii) the date falling five (5) Business Days following the date on which the Issuer notifies the Fiscal Agent that the Hedging Entity has received in full the net proceeds of its liquidation and/or redemption of the Hedging Assets.
Details as to whether the rate of return of the Notes are linked to the total portfolio of underlying assets or whether the return of each Note is ring fenced to the return from assets of individual series of Notes	Nth-default CLN. If credit event occurred at least one of Reference Entity, interests stop to account and investor will receive bonds with credit event in cash on the whole amount of credit-linked notes.	Rate of return is linked to the bond index dynamics.
Details of pledged securities	None	None

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **22. Contingencies**

#### (a) Technology and operating risk

The Group faces technology and operating risk which is the potential for loss due to deficiencies in control processes or technology systems of the Group, its vendors or its outsourced service providers that constrain the ability to gather, process, and communicate information and process client transactions efficiently and securely, without interruptions. This risk also includes the risk of human error, employee misconduct, external fraud, computer viruses, distributed denial of service attacks, terrorist attacks, and natural disaster. The Group's operations are highly dependent on the integrity of its technology systems and success depends, in part, on the ability to make timely enhancements and additions to its technology in anticipation of evolving client needs. To the extent the Group experiences system interruptions, errors or downtime (which could result from a variety of causes, including changes in client use patterns, technological failure, changes to its systems, linkages with third-party systems, and power failures), business and operations could be significantly negatively impacted. To minimize business interruptions, the Group maintains backup and recovery functions, including facilities for backup and communications, and conducts testing of disaster recovery plans.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the Operational Risk Department that is responsible for the development of overall standards for the management of operational risk. Compliance with these standards is supported by a program of periodic reviews undertaken by the Operational Risk Department and Internal Audit. The Group maintains policies and procedures regarding the standard of care expected with data, whether the data is internal information, employee information, or non-public client information. The Group clearly defines for employees, contractors, and vendors the expected standards of care for confidential data. Regular training is provided in regard to data security. The Group is actively engaged in the research and development of new technologies, services, and products.

Despite risk management efforts, it is not always possible to deter or prevent technological or operational failure, or fraud or other misconduct, and the precautions taken by the Group may not be effective in all cases. The Group may be subject to litigation, losses, and regulatory actions in such cases, and may be required to expend significant additional resources to remediate vulnerabilities or other exposures. The Group also faces risk related to its security guarantee which covers client losses from unauthorized account activity, such as those caused by external fraud involving the compromise of clients' login and password information.

#### (b) Compliance risk

As a participant in the securities and financial services markets, the Group is subject to extensive regulation under both federal and state laws by governmental agencies, supervisory authorities, and self-regulated entities. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Management has invested heavily, with the benefit of its scale, in compliance functions to monitor its compliance with the numerous legal and regulatory requirements applicable to its business.

These regulations often serve to limit the Group's activities by way of capital, customer protection and market conduct requirements, and restrictions on the businesses activities that the Group may conduct. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed. Despite efforts to comply with applicable regulations, there are a number of risks, particularly in areas where applicable regulations may be unclear or where regulators revise their previous guidance. Any enforcement actions or other proceedings brought by the regulators against the Group or its affiliates, officers or employees could result in fines, penalties, cease and desist orders, enforcement actions, suspension or expulsion, or other disciplinary sanctions, including limitations on business activities, any of which could harm the Group's reputation and adversely affect the results of operations and financial condition. The consequences of noncompliance can include substantial monetary and non-monetary sanctions.

# **BROKER CREDIT SERVICE STRUCTURED PRODUCTS PLC**

---

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Year ended 31 December 2016

### **22. Contingencies (continued)**

Financial institutions generally must have anti-money laundering procedures in place, implement specialized employee training programs and designate an anti-money laundering compliance officer. Further, regulatory activity in the areas of privacy and data protection continues to grow worldwide and is generally being driven by the growth of technology and related concerns about the rapid and widespread dissemination and use of information. To the extent they are applicable to the Group, it must comply with these global, federal, and local information-related laws and regulations.

Management has established policies, procedures and systems designed to comply with these regulations.

### **23. Commitments**

The Group had no capital or other commitments as at 31 December 2016.

### **24. Events after the reporting period**

There were no material events after the reporting period, which have a bearing on the understanding of the consolidated financial statements.

**Independent auditor's report on pages 9 and 11**