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Finantia UK Limited

(Registered Number: 2856884)

Report and Financial Statements

31 December 2019

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Finantia UK Limited
(Registered Number: 2856884)

Company Information

Directors

L Antas
A Guerreiro
D Guerreiro
M J Hamilton
D Pfeiffer

Company Secretary

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Strategic Report

The Directors present their strategic report for the year ended 31 December 2019.

Principal Activities

The main activities of Finantia UK Limited ("the Company") are fixed income trading and investments and the provision of support and advice for the investment activities of the Banco Finantia S.A. Group ("the Group"), incorporated in Portugal. The ultimate parent company of the Group is Finantipar, S.A., a holding company incorporated in Portugal and regulated by the Bank of Portugal. The Company is regulated by the Financial Conduct Authority (FCA) and is authorised to conduct investment business in the United Kingdom.

The Company works in close liaison with the Group in relation to investment management decisions related to its business strategy.

Business review

The Directors review the performance of the business with reference to their key performance indicators.

The profit for the year, after taxation, is US\$10,828k (2018: US\$13,773k). This decrease was mainly due to the higher interest rate hedging cost in the year, reflected in the changes in derivatives fair value, and to the higher impairment charges in the year.

Total assets of the Company increased from US\$ 716,406k to US\$ 826,629k in 2019, which was mainly due to the increase of the investments portfolio.

The Company complied with all liquidity and capital adequacy requirements throughout the year, keeping a liquidity position and its capital adequacy consistently sound throughout 2019. The Company's regulatory capital resources were US\$ 147,930k as at the year-end (2018: US\$ 109,656k). Total capital ratio and CET1 capital ratio both reached 21.1%, which includes the net profit for the year, above the minimum requirement of 8.0% and 4.5%, respectively.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly related to its exposure to credit, liquidity, foreign exchange, interest rate and capital risk. The recent Covid-19 pandemic outbreak in 2020, with consequences yet to be determined, will be considered as an additional uncertainty element to be included within Company's risk management framework.

The Company has in place a financial risk management program that seeks to limit the adverse effects of these principal risks on its financial performance. The financial risk management program is closely coordinated with the financial risk management activities of the Group. Details of these financial risk management activities are set out in note 15 – Financial risk management.

Capital Requirements Regulations 2013

The disclosure requirements stipulated by the Capital Requirements (Country-by-Country Reporting) Regulations 2013 are as follows:

<i>\$'000 when applicable</i>	31.12.2019	31.12.2018
Turnover	5,450	6,735
Profit after tax	10,828	13,773
Tax paid	2,889	4,611
Number of employees	10	9
Subsidies received	-	-

All of the taxes were paid in the United Kingdom.

Section 172(1) statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- > the likely consequences of any decision in the long term;
- > the interests of the Company's employees;
- > the need to foster the Company's business relationships with suppliers, counterparties and others;
- > the impact of the Company's operations on the community and the environment;
- > the desirability of the Company maintaining a reputation for high standards of business conduct; and
- > the need to act fairly as between members of the Company.

The Directors also took into account the views and interests of a wider set of stakeholders, including shareholders, regulators, counterparties, suppliers and employees.

The Company aims to create value for its stakeholders, balanced across both the short and the long term. Company engage with its stakeholders to better inform them of its activities and to create mutually supportive opportunities and outcomes for them.

Considering this broad range of interests is an important part of the way the Board makes decisions, although in balancing those different perspectives it will not always be possible to deliver everyone's desired outcome.

The Board will sometimes engage directly with certain stakeholders on certain issues, but the size and distribution of our stakeholders and of Company means that stakeholder engagement often takes place at an operational level.

The Board considers and discusses information from across the organization to help it understand the impact of Company's operations, and the interests and views of our key stakeholders. It also reviews strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance. This information is provided to the Board through reports sent in advance of each Board meeting, and through in-person presentations.

As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

Strategy and Future Developments

The directors have reviewed the Company's strategy and business model, and it is closely aligned to that of Banco Finantia S.A. Group, which is focused on the following targets:

- > To increase the Group's international presence in core markets (namely in the UK);
- > To diversify the Group's funding sources; and
- > To reach to a broader number of counterparties and clients.

The directors expect the Company's activities to continue to focus on trading and investment in fixed income securities during 2020 and beyond, consolidating its strategy to increase profitability.

The directors are satisfied that the Company has a robust business model and business strategy in order to consolidate its activities, operating within the strategic priorities of the Banco Finantia S.A. Group of companies.

The global environment, remains quite uncertain and volatile. Several factors related to the surge of Covid-19 could impair global growth in 2020. Market volatility, low interest rates and decrease in oil prices due to lower demand, among others, have created great uncertainty regarding global growth. Growth in the developed countries is expected to be substantially reduced although the emerging economies could have a somewhat greater dynamism.

In this context, the Company will have a cautious posture, capitalizing on its flexible business posture, strong capital base and highly cost efficient structure which shall continue to prove very effective. Overall, the Company plans to continue to pursue its successful strategy to focus on fixed income capital markets operations and to expand financial advisory services. Given its human resources, existing infrastructure and strong capital base, the Company has the capabilities to adapt its strategic orientation to the evolving situation, to continue to expand its client base, the number of its operations and its earning assets.

The Group's platforms in Portugal, Spain, UK, US, Brazil and Malta, a cadre of internationally trained and experienced staff and strong relationships with a variety of clients, institutions and counterparties worldwide give the Group strong competitive advantages. The Group's Financial Advisory Services (FAS) shall continue to expand, focusing on cross-border transactions, supporting both the internationalisation of the Iberian companies and the flow of foreign direct investment into Iberia. The Capital Markets Department is also planning to expand its sales, distribution and market making activities. This in line with the trend in European economies to gradually replace commercial bank credit with capital market funding and thus diversify companies' sources of funding.

The directors are following Brexit developments as they unfold and considering the implications of what Brexit might mean for the Group's UK operations. The directors believe that, due to the nature of the company's activities, no significant impact is expected.

Post Balance Sheet Events

Management is considering the potential economic impact to the Company of the recent global COVID-19 outbreak. A number of front and back office employees and clients are currently operating successfully from remote locations, on the advice of local governments. IT and communications resources available to the Company has ensured that all staff can continue to work effectively and keep in regular contact with colleagues and clients, and as a result, disruption has been kept to a minimum. The recent decrease in financial market activity is resulting in lower trading volumes and therefore revenues, however as part of its going concern review, the Company has sensitivity analysed the potential impact of a significant downturn in levels of revenue/net interest income on profitability, a highly stressed expected credit loss scenario – which is an extremely remote event – on the fair value portfolio, and the resultant outcome was a regulatory capital surplus. The assessment also considered the significance of the Company to the Group, the support, albeit a remote requirement, which Group is able to provide and the high capital buffer of the Group as a whole. COVID-19 is considered as a non-adjusting post balance sheet event. Management has no reason at this time to believe that this will affect the going concern status of the Company.

There are no other significant events after the balance sheet date.

By order of the Board


D. Guerreiro
Director

20 April 2020

Directors' Report

The directors present their report and audited financial statements of Finantia UK Limited ("the Company") for the year ended 31 December 2019.

Directors of the Company

During 2019 and until the date of this report the directors that served the Company are shown on page 2.

Results and dividends

Profit for the financial year after tax was US\$ 10,828k (2018: US\$ 13,773k). Considering the current circumstances, the directors do not propose, at this time, a dividend to be paid in 2020. Dividends of US\$ 9,900k were declared and paid during the year.

Events since the balance sheet date

No significant events have occurred since the balance sheet date. COVID-19 is considered as a non-adjusting post balance sheet event. Please see the Post Balance Sheet Events section in the Strategic Report for reference to the Company's review of the current impact of COVID-19.

Going concern

The Company's business activities, together with factors likely to affect its future development and position, are set out in the Strategic Report. In addition, notes 14 to 16 to the financial statements include details of the Company's objectives, policies and processes in relation to managing its risks and its exposure to credit, market, interest rate, liquidity, foreign exchange, and capital risks.

The Company is expected to generate positive cash flows from its regular trading activities for the foreseeable future. The Company generates its own operational cash flow and is expected to be profitable next year.

The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and for at least 12 months from the date of the approval and signing of the balance sheet. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Please see the Post Balance Sheet Events section in the Strategic Report for reference to the Company's review of the current impact of COVID-19.

Auditors

Ernst & Young LLP were appointed auditors on 4 February 2015. A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 2. The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and, the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

D. Guerreiro

Director

20 April 2020



Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information. Legislation in the UK governing the preparation and distribution of financial statements may differ from legislation in other countries.

Independent auditor's report

Opinion

We have audited the financial statements of Finantia UK Limited for the year ended 31 December 2019 which comprise of the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice); and
- have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 19 of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19 which is impacting financial market activity, resulting in lower trading volumes and therefore lower revenues, as well as impacting personnel available for work and/or being able to access offices. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

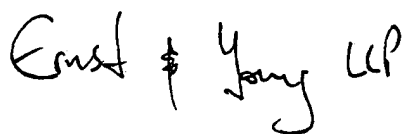
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Stevenson (Senior Statutory Auditor)

For and on behalf of

Ernst & Young LLP, Statutory Auditor

London

24 April 2020

Notes:

1. The maintenance and integrity of the Finantia UK Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Statement of comprehensive income
for the years ended 31 December 2019 and 2018**

		2019	2018
	Notes	\$'000	\$'000
Net trading income	2	5,449	7,109
Net fees and commissions	3	1	(374)
Turnover		5,450	6,735
Interest income	4	33,116	27,374
Interest expense	4	(19,071)	(14,041)
Net interest margin		14,045	13,331
Gross profit		19,495	20,068
Administrative expenses	5	(2,409)	(1,555)
Profit on ordinary activities before impairment and taxation		17,086	18,513
Impairment on financial assets	15	(3,677)	(1,717)
Profit on ordinary activities before taxation		13,409	16,796
Tax on profit on ordinary activities	8	(2,581)	(3,023)
Profit for the financial year		10,828	13,773
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss			
Gains / (losses) on re-measurement of financial assets at fair value through other comprehensive income		21,181	(28,094)
Tax on net revaluation on financial assets at fair value through other comprehensive income	8	(3,601)	4,909
Other comprehensive income for the year		17,580	(23,185)
Total comprehensive income for the year		28,408	(9,412)

Notes on pages 16 to 45 form an integral part of these financial statements

All of the Company's results were derived from continuing operations during the above financial years.

**Statement of financial position
for the years ended 31 December 2019 and 2018**

		2019	2018
	Notes	\$'000	\$'000
Non-current assets			
Tangible fixed assets	9	584	139
Investments	10	556,914	409,959
Deferred tax assets	8	-	2,337
Total non-current assets		<u>557,498</u>	<u>412,435</u>
Current assets			
Debtors	11	267,464	294,824
Cash at bank and in hand	12	1,667	9,147
Total current assets		<u>269,131</u>	<u>303,971</u>
Total assets		<u>826,629</u>	<u>716,406</u>
Creditors: amounts falling due within one year			
Repurchase agreements with fellow Group undertakings	13	84,370	227,509
Repurchase agreements with non-Group undertakings	13	382,783	188,447
Other creditors	13	20,301	13,320
Corporate tax liability	8	1,149	1,327
Deferred tax liability	8	1,265	-
Creditors: amounts falling due after more than one year			
Repurchase agreements with non-Group undertakings	13	109,866	83,829
Other creditors	13	78,445	87,034
Total liabilities		<u>678,179</u>	<u>601,466</u>
Capital and reserves			
Share capital	14	125,000	110,000
Fair value reserve	14	7,444	(10,137)
Retained earnings	14	16,006	15,077
Total equity		<u>148,450</u>	<u>114,940</u>
Total liabilities and equity		<u>826,629</u>	<u>716,406</u>

Notes on pages 16 to 45 form an integral part of these financial statements

Approved and authorised by the Board of Directors at a meeting on 20 April 2020 and signed on its behalf by D. Guerreiro.



**Statement of changes in equity
for the years ended 31 December 2019 and 2018**

	Share capital	Fair value reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000
At 1 January 2018	<u>100,000</u>	<u>13,048</u>	<u>19,792</u>	<u>132,840</u>
Profit for the financial year	-	-	13,773	13,773
Other comprehensive income	-	(23,185)	-	(23,185)
Total comprehensive income for the year	<u>-</u>	<u>(23,185)</u>	<u>13,773</u>	<u>(9,412)</u>
Share capital increase	10,000	-	-	10,000
Dividend paid	-	-	(18,500)	(18,500)
Other movements	-	-	12	12
At 31 December 2018	<u>110,000</u>	<u>(10,137)</u>	<u>15,077</u>	<u>114,940</u>
Profit for the financial year	-	-	10,828	10,828
Other comprehensive income	-	17,580	-	17,580
Total comprehensive income for the year	<u>-</u>	<u>17,580</u>	<u>10,828</u>	<u>28,408</u>
Share capital increase	15,000	-	-	15,000
Dividend paid	-	-	(9,900)	(9,900)
Other movements	-	-	2	2
At 31 December 2019	<u>125,000</u>	<u>7,444</u>	<u>16,006</u>	<u>148,450</u>

Notes on pages 16 to 45 form an integral part of these financial statements

1. Accounting policies

The financial statements of Finantia UK Limited (the “Company”) for the year ended 31 December 2019 were authorised for issue by the board of directors on 20 April 2020 and the balance sheet was signed on the board’s behalf by Mr. David Guerreiro. Finantia UK Limited is a company incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The results of Finantia UK Limited are included in the consolidated financial statements of Banco Finantia S.A. which are available from Rua General Firmino Miguel, 5, 1st floor, Lisbon, Portugal.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019. The financial statements are prepared in US Dollar and are rounded to the nearest thousand (“\$000” or “k”).

1.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with FRS 101.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets measured at fair value through other comprehensive income, trading securities and certain other financial assets and liabilities at fair value through profit or loss and all derivative contracts, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.2.

The following exemptions from the requirements of IFRS disclosures have been applied in the preparation of these financial statements, in accordance with FRS 101:

- (a) Paragraphs 45(b) and 46 to 52 of IFRS 2, ‘Share-based payment’ (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- (b) Paragraphs 91 to 99 of IFRS 13, ‘Fair value measurement’ (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities), provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (c) Paragraph 38 of IAS 1, ‘Presentation of financial statements’ – comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16, ‘Property, plant and equipment’; and
 - (iii) paragraph 118(e) of IAS 38, ‘Intangible assets’ (reconciliations between the carrying amount at the beginning and end of the period);

- (d) The following paragraphs of IAS 1, 'Presentation of financial statements': i) 10(d) (statement of cash flows); ii) 16 (statement of compliance with all IFRS); iii) 38A (requirement for minimum of two primary statements, including cash flow statements); iv) 38B–D (additional comparative information); and v) 111 (cash flow statement information).
- (e) IAS 7, 'Statement of cash flows';
- (f) Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- (g) Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- (h) The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group;
- (i) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations', can be omitted, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (j) The requirements of paragraph 33(c) of IFRS 5 'Non-current assets held for sale and discontinued operations' can be omitted, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- (k) The following paragraphs of IAS 1, 'Presentation of financial statements': i) 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements); and ii) 40A–D (requirements for a third statement of financial position);
- (l) Paragraph 18A of IAS 24, 'Related party disclosures', related to key management services provided by a separate management entity.
- (m) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).

New standards, amendments and IFRIC interpretations

In these financial statements, the Company has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. The Company has not early adopted 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7' which is effective for annual periods beginning on or after 1 January 2020 with earlier adoption permitted.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Company's consolidated financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2019, unless otherwise stated. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective including 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7'.

The Company initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 1.3.k).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Company leases some assets – property. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Company has elected not to separate non-

lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- i) their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application: the Company applied this approach to its property lease; or
- ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company: i) did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application; ii) did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment); iii) excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and iv) used hindsight when determining the lease term.

Leases classified as finance leases under IAS 17

For the finance leases classified under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. As of 31 December 2019 and 2018, the Company has no sub-lease agreement.

Impact on transition

On transition date (1 January 2019) to IFRS 16, the Company recognised right-of-use assets – property, plant and equipment – and respective lease liabilities, in the amount of US\$ 64k with no difference to be recognised in retained earnings. The IFRS 16 transition impact on Company's equity position is null. When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019.

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The recognition of such revenue is in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance

obligations; and recognise revenue when the performance obligations are satisfied. IFRS 15 hasn't had any material impact on the company.

There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019.

1.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

- (a) The judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements relate to deferred tax assets or liabilities. Deferred tax assets or liabilities are recognised for all unused tax losses or gains to the extent that it is probable that taxable profit or loss will be available against which the losses or gains can be utilised. Significant management judgement is required to determine the amount of deferred tax assets or liabilities that can be recognised based upon the likely timing and level of future taxable profits or losses together with future tax planning strategies.
- (b) The following estimates are dependent upon assumptions, which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

> Fair value of financial instruments

The fair value of financial assets and financial liabilities recorded on the balance sheet are derived from observable market data from active markets and present value approaches where future cash flows are estimated and then discounted using risk-adjusted interest rates based on instruments with similar risk characteristics and currency.

In accordance with IFRS 13 Fair Value Measurement, the Company categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. The valuation techniques for level 2 and, particularly, level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information.

> Impairment losses on financial assets

IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach applies to financial assets including finance lease receivables, recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently

the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

The calculation of the company's expected credit loss (ECL) allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

- i) **Definition of default:** the probability of default (PD) of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.3.
- ii) **Lifetime of an exposure:** the PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.
- iii) **Significant increase in credit risk:** performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition. The Company uses quantitative indicators together with qualitative indicators to determine whether there has been a SICR for an asset. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.
- iv) **Probability of Default (PD):** the assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not generally available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.
- v) **Forward looking information:** the measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

1.3 Summary of significant accounting policies

a) Foreign currencies

The Company's functional currency and presentation currency is US dollar. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Company does not apply hedge accounting of foreign exchange risks in its company financial statements.

b) Turnover

Turnover is comprised of net trading income and net fees and commissions.

Net trading income

Net trading income includes the net realised profit arising from transactions in securities, the changes in fair value from derivative financial instruments and the gains and losses from foreign exchange.

Net fees and commissions

Fees and commissions are paid for brokerage services rendered by affiliated group undertakings regarding investment activities.

Fees and commissions earned/paid over the period in which services are provided / received are recognised over the period the services are provided / received.

c) Net interest income

Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability, including early redemption fees, and related penalties, and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account.

Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

d) Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- > where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- > in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- > deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

e) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation, which is provided on a straight line basis over the estimated useful lives of the assets. The useful lives of the assets are as follows:

Furniture, fixtures and fittings	8 years
Office equipment	10 years
Office refurbishments	10 years
Computer equipment and software	4 years

The cost includes original purchase price of the asset and costs attributable to bringing the assets to its working condition for its intended use.

f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to resell. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g) Financial instruments

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest.

The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset. Derivatives are recognised on a trade date basis.

Subsequent measurement

Financial instruments measured at fair value through profit or loss (FVTPL)

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss.

Trading securities, which are principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains, are measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the statement of comprehensive income within net trading income.

Financial liabilities are measured at fair value through profit or loss where they are trading liabilities or where they are designated at fair value through profit or loss in order to reduce an accounting mismatch; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in

the statement of comprehensive income within net trading income in the period in which they occur, except that gains and losses attributable to changes in own credit risk are recognised in other comprehensive income, unless doing so would create or enlarge an accounting mismatch in which case they are recognised in the statement of comprehensive income.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Company establishes a fair value by using valuation techniques.

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Such assets are carried at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

Financial assets at fair value through other comprehensive income (FVTOCI)

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs.

Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the statement of comprehensive income. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income. The Company recognises a charge for expected credit losses in the statement of comprehensive income. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income, specifically the fair value reserve – the reserve is comprised of the gains/losses, EIR adjustments and impairment on FVTOCI instruments.

Derecognition of financial instruments

A financial asset is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses. Expected credit losses are recognised for financial assets at amortised cost and financial assets measured at fair value through other comprehensive income. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative parameters based probability of default (PD) movements linked to external credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1. Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due.

The expected forward-looking and point-in-time loss is determined based on the market-based curve spreads considered for each instrument. The methodology developed is based on the construction of the temporal structure of the PD implicit in the market curves, in this manner incorporating forward-looking and point-in-time information, given that it reflects the current economic environment as well as future market expectations. This information is made available by entity or segmented based on currency, economic sector and rating. If a specific curve is not available for the instrument, a generic curve is assigned according to the asset segment analysed.

Purchased or originated credit-impaired financial assets (POCI) are financial assets that are purchased or originated at a deep discount that reflects incurred credit losses. At initial recognition, POCI assets do not carry an impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate. All changes in lifetime expected credit losses subsequent to the assets' initial recognition are recognised as an impairment charge.

A financial asset is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income.

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

h) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership.

The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

i) Fair value measurement

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. Fair value price is obtained from quoted market prices or broker/dealer prices in active markets, if available, or are based on the established price of recent market transactions or in its absence on the usage of valuation techniques.

Valuation techniques include net present value calculation procedures using direct observable market inputs. If a reliable market can readily be identified for a security, the fair value is determined by reference to its market value. If a reliable market cannot readily be identified for the financial instrument but can be identified for its components or for a similar instrument, its fair value is determined by reference to the market value of its components or of the similar instrument.

j) Trade and other debtors

Trade debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

k) Leasing and hire purchase commitments

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Company as a lessee

Leases that do not transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised

as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which it is incurred.

l) Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported on the balance sheet when there is currently a legally enforceable 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.

m) Derivatives and hedge accounting

Derivative financial instruments are recognized on the trade date at their fair value. Subsequently, the fair value of derivative financial instruments is revalued on a regular basis, and gains or losses are recorded directly in results for the period, except in respect of hedging derivatives. Recognition of fair value changes in hedging derivatives depends on the nature of the hedged risk and the hedging model used.

The fair value of derivative financial instruments corresponds to their market value, when available, or is determined on the basis of valuation techniques, including discounted cash flows and option valuation models, as appropriate.

Hedge accounting

Derivative financial instruments used for hedging purposes may be classified as hedging instruments provided that they cumulatively meet the following conditions:

- > Existence of an economic relationship between the hedged element and its hedging;
- > The effects inherent in the evolution of credit risk may not dominate the changes in value resulting from this relationship; and
- > Establishment of a hedging ratio between hedged and hedging items that is equivalent to that actually applied by the institution in the management of the economic hedges that are intended to be replicated.

The application of hedge accounting remains optional, but may no longer be discontinued while the requirements for its application continue to be verified.

> Fair value hedge

In a fair value hedge, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with the changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

When a hedging instrument expires or is sold, or when the hedging no longer meets the criteria required for hedge accounting or the entity revokes that designation, the derivative financial instrument is transferred to the trading book and hedged assets and liabilities cease to be adjusted for changes in their fair value. If the hedged asset or liability corresponds to an instrument measured at amortized cost, the revaluation adjustment is amortized to its maturity by the effective interest rate method and reflected in results of financial operations.

2. Net trading income

<i>\$'000</i>	31.12.2019	31.12.2018
Net profit from securities transactions	9,718	2,888
Net changes in derivatives fair value	(4,701)	4,574
(Losses)/gains on foreign exchange	432	(353)
	5,449	7,109

Net profit from securities transactions relate to gains and losses realised on the sale and purchase of fixed income securities.

(Losses)/gains on foreign exchange represents foreign exchange movements on financial instruments, predominantly from the investment portfolio of financial assets at fair value through other comprehensive reserve.

The directors are of the opinion that the Company's principal activities are managed on a global basis and therefore an analysis of profit/(loss) before taxation and net assets by geographical region has not been provided.

3. Net fees and commissions

<i>\$'000</i>	31.12.2019	31.12.2018
Fees and commissions payable to group undertakings	-	(372)
Fees and commissions receivable from / (payable to) non-group undertakings	1	(2)
	1	(374)

Until 31 December 2018, fees and commissions payable to group undertakings included a brokerage commission due to a fellow group subsidiary that was discontinued in 2019.

4. Net interest income

<i>\$'000</i>	31.12.2019	31.12.2018
Interest receivable and similar income	33,116	27,374
Interest payable and similar expense	(19,071)	(14,041)
	14,045	13,333

As at 31 December 2019, interest receivable and similar income includes the amount of US\$ 9,842k (31 December 2018: US\$ 7,094k) regarding operations with fellow group undertakings.

As at 31 December 2019, interest payable and similar expense includes the amount of US\$ 6,594k (31 December 2018: US\$ 7,950k) regarding operations with fellow group undertakings.

As of 31 December 2019, the interest receivable and the interest payable recognised using the effective interest rate amounted to US\$ 33,116k (2018: US\$ 27,374k) and US\$ 17,012k (2018: US\$ 12,489k), respectively.

5. Administrative expenses

\$'000	31.12.2019	31.12.2018
Staff costs (note 6)	1,170	952
Depreciation of tangible fixed assets (note 9)	154	30
Auditor's remuneration: audit of the financial statements	93	60
Auditor's remuneration: audit related assurance service	27	27
Operating lease expense: land and buildings	-	136
Other general expenditure	965	350
	2,409	1,555

Finantia UK has entered into an operating lease related to the rental of an office space in UK. This lease had a term of 5 years. The total rents recognised, as expense during 2018 was US\$ 136k. Following the implementation of IFRS 16 as of 1 January 2019, the Company registers the leases in accordance with the accounting policies established in note 1.

Other general expenditures includes sundry administrative expenses essential to the regular activity of the Company.

6. Staff costs

The monthly average number of persons employed by the Company (including directors) during the year was 10 (2018: 9).

The aggregate payroll costs (including directors) were as follows:

\$'000	31.12.2019	31.12.2018
Wages and salaries	830	618
Social security costs	109	68
Other pension costs	37	36
Other staff costs	194	230
	1,170	952

The Company contributes to a defined contribution pension scheme on a monthly basis, on behalf of its employees, including one of its directors. During 2019, the Company paid US\$ 37k (2018: US\$ 36k). There are no amounts pre-paid or outstanding relating to pensions plans.

7. Directors emoluments

\$'000	31.12.2019	31.12.2018
Directors emoluments regarding services to the Company	232	222
Directors emoluments regarding contributions to pension schemes	10	8
	<u>242</u>	<u>230</u>

During the year, two directors were members of a defined contribution pension scheme.

Highest paid director

\$'000	31.12.2019	31.12.2018
Emoluments for services to the Company	109	99
Emoluments regarding compensation to pension schemes	4	2
	<u>113</u>	<u>100</u>

8. Tax on profit on ordinary activities

(a) Tax charged to the statement of comprehensive income

\$'000	31.12.2019	31.12.2018
Current tax		
UK Corporation tax at 19% on taxable profits for the year	2,537	3,161
Adjustments in respect of previous periods	-	(24)
Effect of exchange rate on current tax	-	(153)
Total current tax	<u>2,537</u>	<u>2,984</u>
Deferred tax		
Origination and reversal of temporary differences	44	39
Adjustment in respect of prior years	-	-
Total deferred tax	<u>44</u>	<u>39</u>
Tax on profit on ordinary activities	<u>2,581</u>	<u>3,023</u>

(b) Tax relating to items charged or credited to other comprehensive income

<i>\$'000</i>	31.12.2019	31.12.2018
Deferred tax		
Unrealised gain/(loss) on financial assets at fair value through other comprehensive income	4,019	(5,323)
Unrealised loss on available-for-sale financial assets	(44)	(65)
Adjustment in respect of prior years	-	(153)
Rate change	(418)	567
	3,557	(4,974)
Current tax		
Tax reclassified from available-for-sale financial assets	44	65
	44	65
Tax debit/(credit) in the statement of other comprehensive	3,601	(4,909)

(c) Reconciliation of the total tax charge

The effective tax rate for the year is the standard rate corporation tax of 19% (2018: 19%) in the UK.

<i>\$'000</i>	31.12.2019	31.12.2018
Factors affecting the tax charge for period		
Profit on ordinary activities before tax	13,409	16,796
Profit calculated at UK standard rate of corporation tax of 19% (2018: 19%)	2,548	3,191
Effects of:		
Expenses not deductible for tax purposes	33	9
Adjustments in respect of previous periods - current tax	-	(24)
Effect of exchange rate on current tax	-	(153)
Total tax charge for period	2,581	3,023

(d) Change in Corporation Tax rate

The Finance Act 2016, enacted on 15 September 2016, included a decrease in corporation tax rates to 17% from 1 April 2020. In accordance with accounting standards, the effect of this rate reduction on deferred tax balances has been reflected in these accounts as the relevant legislation in relation to the reduction in the UK corporation tax rate has been substantively enacted at the balance sheet date.

On 12 March 2020 it was announced (and later substantively enacted) that the UK corporation tax rate would increase from 17% (the previously enacted rate) to 19% from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under International Financial Reporting Standards. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of temporary differences will occur at this rate and that the maximum impact on the quantum of the total deferred tax liability recognised will be \$149k.

(e) Deferred tax

<i>\$'000</i>	31.12.2019	31.12.2018
Deferred tax liability		
Transitional adjustment relating to financial assets at fair value through other comprehensive income	(39)	(78)
Financial assets at fair value through other comprehensive income	(1,521)	-
	<u>(1,560)</u>	<u>(78)</u>
Deferred tax asset		
Decelerated capital allowances	16	16
Financial assets at fair value through other comprehensive income	-	2,076
Transitional adjustment relating to IFRS 9	279	323
	<u>295</u>	<u>2,415</u>
Deferred tax asset / (liability) as at 31 December	(1,265)	2,337

Deferred tax movement can be analysed as follows:

<i>\$'000</i>	2019	2018
Balance as at 1 January	2,337	(2,561)
IFRS 9 restatement	-	(37)
Profit and loss account	(44)	(39)
Financial assets at fair value through other comprehensive income	(3,976)	5,388
Rate change	418	(567)
Adjustment in respect of prior years	-	153
Balance as at 31 December	<u>(1,265)</u>	<u>2,337</u>

The deferred tax at 31 December 2019 amounts to US\$ (1,265)k (2018: US\$ 2,337k). This comprises a deferred tax asset in relation to decelerated capital allowances US\$ 16k, a deferred tax liability in respect of the revaluation of financial assets at fair value through other comprehensive income in reserves US\$ (1,521)k, a deferred tax asset related to the Transitional adjustment relating to IFRS 9 US\$ 279k and a deferred tax liability related to the transitional adjustment relating to financial assets at fair value through other comprehensive income US\$ (39)k.

9. Tangible fixed assets

	Furniture, fixtures and fitting & office equipment	Office refurbishme nts	Right of use assets	Computer equipment and software	Total
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Cost:					
At 1 January 2019	133	392	-	749	1,274
Additions	-	-	534	5	539
Disposals	-	-	(66)	-	(66)
Transfers	-	-	64	-	64
FX variations	-	-	2	-	2
At 31 December 2019	<u>133</u>	<u>392</u>	<u>534</u>	<u>754</u>	<u>1,813</u>
Depreciation:					
At 1 January 2019	109	279	-	746	1,135
Depreciated charge	6	22	122	4	154
Disposals	-	-	(66)	-	(66)
FX variations	-	-	6	-	6
At 31 December 2019	<u>115</u>	<u>301</u>	<u>63</u>	<u>750</u>	<u>1,229</u>
Carry amount:					
At 31 December 2019	<u>18</u>	<u>91</u>	<u>471</u>	<u>4</u>	<u>584</u>
At 31 December 2018	<u>24</u>	<u>113</u>	<u>-</u>	<u>3</u>	<u>139</u>

10. Investments

<i>\$'000</i>	31.12.2019	31.12.2018
Financial assets at fair value through other comprehensive income	511,133	380,244
Financial assets at amortised cost	45,781	29,715
	556,914	409,959

Financial assets at fair value through other comprehensive income comprise listed fixed income securities and purchased loans, which by type of issuer can be analysed as follows:

<i>\$'000</i>	31.12.2019	31.12.2018
Fixed income securities:		
Sovereigns	102,719	95,396
Financial institutions	119,146	118,053
Corporates	269,085	149,261
	490,950	362,710
Loans:		
Sovereigns	8,223	10,816
Corporates	11,960	6,718
	20,183	17,534
	511,133	380,244

The prior year comparatives have been adjusted to more appropriately reflect the classification of the issuers.

Fair value has been determined by reference to quoted market prices.

Financial assets at amortised cost includes investments in non-derivative financial assets with fixed payments that are not quoted in an active market, which are carried at amortised cost, in the amount of US\$ 45,781k (2018: US\$ 29,715k). These investments comprise fixed income securities in the amount of US\$ 10,788k (2018: US\$ 10,731k) and corporate loans purchased in the secondary market in the amount of US\$ 34,993k (2018: US\$ 18,984k) and are classified as hold to collect.

The movement in the impairment of the investments portfolio in the financial years ended 31 December 2018 and 2019 may be analysed as follows:

	Stage 1		Stage 2		Stage 3		Total	
	Asset	ECL	Asset	ECL	Asset	ECL	Asset	ECL
At 1 January 2018	431.536	1.781	6.000	238	-	-	437.536	2.019
Transfer from Stage 1 to Stage 3	(11.000)	(222)	11.000	222	-	-	-	-
Impact on ECL of stage transfers	-	-	-	219	-	-	-	219
Change for the year net of reversals	-	1.669	-	(171)	-	-	-	1.498
Total profit and loss impairment charge	-	1.447	-	270	-	-	-	1.717
Charge in net exposure plus foreign exchange variations	(22.111)	(18)	(1.718)	30	-	-	(23.829)	12
At 31 December 2018	398.425	3.210	15.282	538	-	-	413.707	3.748
Transfer from Stage 1 to Stage 3	(14.291)	(352)	-	-	14.291	352	-	-
Impact on ECL of stage transfers	-	-	-	-	-	2.615	-	2.615
Change for the year net of reversals	-	(725)	-	(406)	-	2.191	-	1.060
Total profit and loss impairment charge	-	(1.077)	-	(406)	-	5.158	-	3.675
Charge in net exposure plus foreign exchange variations	150.643	2	-	(1)	-	12	150.643	13
At 31 December 2019	534.777	2.135	15.282	131	14.291	5.170	564.350	7.436

11. Debtors

\$'000	31.12.2019	31.12.2018
Reverse repurchase agreements with fellow group undertakings	264,348	273,883
Amounts due from market counterparties	674	18,962
Derivative financial instruments	627	1,181
Amounts owed by Group undertakings	1,815	798
	267,464	294,824

As at 31 December 2019, debtors are presented net of impairment on financial assets on the amount of US\$ 19k (2018: US\$ 17k). In 2019, the charges for the year, net of reversals amounted to US\$ 2k.

The amount falling due after more than one year is US\$ 23,941k (2018: 21,006k) and there are no past due balances as at 31 December 2019 and 2018.

Except for the reverse repurchase agreements with fellow group undertakings, the effective interest rate on trade debtors is zero (2018: zero) and there is no material differences between the carrying value and the fair value. The effective interest rate for reverse repurchase agreements with fellow group undertakings is 2.77% (2018: 2.90%) and these operations are collateralised by fixed income securities with a fair value of US\$ 324,100k (2018: US\$ 337,768k).

Derivative financial instruments and hedge accounting

Derivative contracts are financial instruments that derive their value from an underlying rate or price. The Company has entered into various derivative contracts to manage the exposure to interest rate and foreign exchange risks. Hedging transactions comprise derivatives used to hedge specific interest rate mismatches.

The table shows the fair values of derivative financial instruments, recognised as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions at the year-end and are indicative of neither the market risk nor the credit risk.

Fair value has been determined using discounted cash flow models applying risk-adjusted interest rates as appropriate.

\$ '000	2019			2018		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives						
Foreign exchange swaps	1,000	-	3	7,000	2	-
Interest rate swaps	270,468	627	7,784	290,250	1,179	2,588
	271,468	627	7,787	297,250	1,181	2,588
Of which: hedging derivatives						
Interest rate swaps	270,379	627	7,783	232,251	918	2,206
	270,379	627	7,783	232,251	918	2,206

Foreign exchange swaps, represents a contract between two parties and consists in the swap of currencies at a determined forward exchange rate. It is an agreement for cash flow exchange, in which one of the parts agrees to pay interest on the principal in one currency, in exchange of receiving interest on the principal in another currency. In the end of the operation, the principal in foreign currency is paid and the principal in domestic currency is received. The purposes of these operations are the hedging and management of the liquidity risk inherent to future receipt and payments in foreign currency, through the elimination of the uncertainty of the future value of particular exchange rates.

Interest rate swap, which in conceptual terms consists of a contract between two parties who agree to exchange (swap) between them, for a specified amount and period of time, periodic fixed rate for floating rate payments. Involving only one currency, this kind of instrument is mainly directed at the hedging and management of the interest rate risk related to a fixed rate loan or advance's income or the cost that one party is required to make in a future period.

Fair value hedges

In line with the accounting policy explained in Note 1.3.k, the Company enters into micro fair value hedge relationships to protect itself against changes in the fair value of financial assets due to movements in interest rates. The financial instruments hedged for interest rate risk in a micro fair value hedge relationships are fixed income securities in both the financial assets at fair value through other comprehensive income and the financial assets at amortised cost portfolios. The Company uses interest rate swaps to hedge interest rate risk.

The impacts of the hedge relationships referred to above, and outstanding in 2019 and 2018, can be analysed as follows:

\$ '000	31.12.2019	31.12.2018
Gains/(losses) in hedging instruments	(136)	319
Gains/(losses) in hedged items	136	(319)
Securities in the financial assets at amortised cost portfolio	-	-
Gains/(losses) in hedging instruments	(7,896)	1,804
Gains/(losses) in hedged items	7,895	(1,824)
Securities in the financial assets at fair value through other comprehensive income portfolio	(1)	(20)
Ineffectiveness from fair value hedges	(1)	(20)

In accordance with its hedging strategy, the Company matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations.

Hedge ineffectiveness can arise from:

- > Differences in timing of cash flows of hedged items and hedging instruments;
- > Different interest rate curves applied to discount the hedged items and hedging instruments;
- > Derivatives used as hedging instruments having a non-nil fair value at the time of designation; and
- > The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

A breakdown of the nominal amount of the interest rate swaps designated as hedging instruments can be analysed as follows:

\$'000	31.12.2019	31.12.2018
Up to 3 months	-	-
From 3 to 12 months	5,000	-
From 1 to 5 years	137,911	104,370
Over 5 years	127,468	127,881
	270,379	232,251

For fixed income securities classified as 'financial assets at amortised value' (see Note 10) the accumulated hedge adjustment as at 31 December 2019 amounted to a gain of US\$ 114 (2018: US\$ nil). During the year the Company recognised a gain in the amount of US\$ 136k (2018: gain of US\$ 319k) related to the fair value change of the hedge items and the amount of US\$ 22k (2018: gain of US\$ 651k) as a loss from derecognised items and the amortisation of previous hedging relationships that were discontinued.

In addition, and for fixed income securities classified as 'financial assets at fair value through other comprehensive income', the Company recognised in 2019 losses on hedging instruments amounting to US\$ 7,896k (2018: gains of US\$ 1,804k) and gains on the respective hedged items of US\$ 7,895k (2018: losses of US\$ 1,824k). These gains in hedged items attributable to the hedged risks have been reclassified from the fair value reserve to profit or loss. When the hedged assets are derecognised the respective amount in fair value reserve is reclassified to profit or loss, this reclassification in 2019 amounted to US\$ 3,300k (2018: US\$ 3,247k).

12. Cash at bank and in hand

\$'000	31.12.2019	31.12.2018
Cash with Group undertakings	1,267	1,461
Cash with non-Group undertakings	400	7,686
	1,667	9,147

Cash is callable on demand.

13. Creditors

Amounts falling due within one year:

\$'000	31.12.2019	31.12.2018
Repurchase agreements with fellow Group undertakings	84,370	227,509
Repurchase agreements with non-Group undertakings	382,783	188,447
Amounts owed to Group undertakings	8,942	2,630
Amounts due to market counterparties	10,604	10,434
Derivative financial instruments	12	-
Sundry creditors	743	256
	487,454	429,276

The prior year comparatives have been adjusted to more appropriately reflect the classification of the counterparties.

Amounts falling due after more than one year:

\$'000	31.12.2019	31.12.2018
Repurchase agreements with non-Group undertakings	109,866	83,829
Amounts owed to Group undertakings	70,670	84,446
Derivative financial instruments	7,775	2,588
	188,311	170,863

Except for the repurchase agreements with fellow Group undertakings, the effective interest rate on creditors is zero (2018: zero) and there is no material differences between the carrying value and the fair value.

The effective interest rate for repurchase agreements with fellow Group undertakings is 2.77% and with non-group Group undertakings is 2.78% (2018: 2.49% and 3.42% respectively). These operations with fellow Group undertakings are collateralised by securities with a fair value of US\$ 104,061k and with non-group Group undertakings with a fair value of US\$ 620,695k (2018: US\$ 270,749k and US\$ 343,199k respectively).

Derivative financial instruments are held at fair value, with associated gains and losses recognised through profit and loss. All other liabilities are recorded at amortised cost.

14. Share capital and reserves

\$'000	31.12.2019	31.12.2018
Authorised		
Ordinary shares of US\$1 each:		
At 31 December	125,000	110,000
Allotted, issued and fully paid		
Ordinary shares of US\$1 each:		
At 31 December	125,000	110,000

At 29 July 2019, the Board of Directors decided to increase the share capital of the Company in US\$ 15,000k, by the issuance of 15.000.000 new shares of US\$ 1 each. These shares were allotted to Banco Finantia, S.A. and Finantia Holdings, B.V., the shareholders of the Company, in their proportion of percentage in share capital.

Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements established by the Capital Requirements Regulation ("CRR") that enforced since January 1, 2014 the Basel III framework (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013). The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Financial Conduct Authority in supervising the Company.

The primary objectives of the Company's capital management policy are to ensure that the Company complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and to maximise shareholder value.

The Company manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Regulatory capital

The Company's regulatory capital can be analysed as follows:

Capital structure

\$'000	31.12.2019	31.12.2018
Share capital	125,000	110,000
Retained earnings	16,006	10,177
Fair value reserve	7,444	(10,137)
Additional value adjustment (AVA)	(520)	(384)
Common Equity Tier 1 (CET1) Capital	147,930	109,656

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Regulatory capital consists only of CET 1 capital, which comprises share capital, retained earnings including current year profit, and accumulated other comprehensive income. The AVA adjustment deduction is made to CET 1 capital in accordance with the CRR.

Risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees and by taking into account market related risks such as foreign exchange and interest rate position risks, and counterparty risk, if considered under the trading book.

15. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including foreign exchange and interest rate risk) and capital risk. The Company operates a comprehensive risk management programme, which is carried out by the directors in the context of the Group's risk management activities. This focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Financial instruments

The Company finances its activities with a combination of repos and equity. Overdrafts are used to satisfy short-term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative transactions, including principally interest rate swaps and forward

currency contracts. The purpose is to manage the interest rate and foreign exchange risks arising from the Company's operations and its sources of finance.

Financial instruments give rise to credit, liquidity, foreign exchange, interest rate and capital risk information on how these risks arise is set out below, as are the objectives, policies and processes for their management.

Use of derivatives

The Company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The Company also uses interest rate swaps in order to hedge interest rate exposures from its fixed income securities portfolio.

(a) Credit risk

Credit risk is managed on Group basis and covers Finantia UK Limited. Credit risk arises from cash, deposits with banks and financial institutions, the Company's Investment portfolio comprising of fixed income financial instruments and loans, as well as other outstanding receivables and committed transactions. The approval of credit operations is carried out according to a set of internal principals and procedures embodied in the Banco Finantia Group's Credit Rules and Regulations and utilises, amongst other measures, a "Risk Adjusted Pricing Model". This model is used primarily for risk management, as opposed to for impairment assessments, for which external market data is primarily used.

Credit risk is the risk that the counterparties to the Company's financial assets may default. During the year, the Company recorded a US\$ 3,677k impairment loss, which resulted from the IFRS 9 expected credit loss model (2018: US\$ 1,717k).

The amounts in the table below show the Company's gross maximum exposure to credit risk without taking account of any collateral or economic hedges in place:

\$'000	31.12.2019	31.12.2018
Investments	556,914	409,959
Debtors	267,764	297,234
Cash and banks	1,667	9,147
Total exposure	826,345	716,340
Collateral	324,100	337,768

As at 31 December 2019 the caption debtors includes the carrying amount of US\$ 264,348k (31 December 2018: US\$ 273,883k) regarding reverse repurchase agreements with fellow Group undertakings (see note 11).

(b) Market risk
Interest rate risk

The Company has interest bearing assets. Interest bearing assets include cash balances, all of which earn interest at a fixed or floating rate. The Company has a policy of maintaining deposits at fixed rates to ensure certainty of future interest cash flows. Additionally, and in order to hedge the interest rate risk from its fixed income due to movements in interest rates, as explained in Note 11, the Company uses interest rate swaps. The directors will revisit the appropriateness of this policy should the Company's operations change in size or nature.

Foreign exchange risk

The Company is exposed to foreign exchange risk mainly from its fixed income securities portfolio held in foreign exchange currency (euros). The Company hedges its foreign exchange risk through derivative contracts (foreign exchange swaps) as explained in Note 11. The directors will revisit the Company's exposure to foreign exchange risk should the Company's operations change in size or nature.

(c) Liquidity Risk

Liquidity risk is managed through maintaining sufficient cash and investing in mainly highly liquid instruments such as short term money market instruments. The Company's funding arises primarily from the regular settlement of market counterpart trades, as well as amounts due from the activities and relationships with Banco Finantia S.A. Group entities.

Analysis of liabilities by remaining maturities

The table below summarises the maturity of the Company liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations.

\$'000	2019				
	Repayable on demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years
Repurchase agreements	-	141,064	326,089	109,866	-
Amounts owed to Group undertakings	-	542	8,400	70,670	-
Amounts due to market counterparties	-	10,604	-	-	-
Corporate tax liability	-	1,149	-	-	-
Deferred tax liability	-	1,265	-	-	-
Derivative financial instruments	-	3	9	4,498	3,277
Sundry creditors	-	743	-	-	-
	-	155,369	334,498	185,034	3,277

	\$ '000	2018				
		Repayable on demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years
Repurchase agreements	-	158,442	257,514	83,829	-	-
Amounts owed to Group undertakings	-	2,630	-	84,446	-	-
Amounts due to market counterparties	-	10,434	-	-	-	-
Corporate tax liability	-	1,327	-	-	-	-
Deferred tax liability	-	-	-	-	-	-
Derivative financial instruments	-	-	-	1,108	1,480	-
Sundry creditors	-	256	-	-	-	-
	-	173,089	257,514	169,383	1,480	

The Company received US\$ 324,100k (2018: US\$ 337,768k) of securities as collateral in reverse repo transactions under rehypothecation agreements with Group companies (see note 11). The collateral received is not recognised on balance sheet as it does not meet the recognition criteria under IFRS 9.

The Company posted US\$ 104,061k (2018: US\$ 270,749k) of securities as collateral in repo transactions under rehypothecation agreements with Group companies (see note 13). This collateral posted remains on balance sheet as it does not meet the de-recognition requirements under IFRS9.

The amount of US\$ 51,770k (2018: US\$ 170,060k) of the collateral received in has been posted out to group entities under rehypothecation agreements. All of the assets posted by the Company as collateral on repurchase agreements with fellow Group companies is eligible to re-posted under re-hypothecation agreements.

16. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- > **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Company has access to at the measurement date, or prices matching those disclosed by market participants that are usually market makers in the respective assets/liabilities when the market is considered active.
- > **Level 2 financial instruments** – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves,

implied volatilities, and credit spreads. Adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument.

- > **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as a whole.

The Company's fair value hierarchy for assets and liabilities measured at fair value can be analysed as follows:

\$'000	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Derivative financial instruments	-	627	-	-	1,181	-
FVTOCI – Fixed income securities	362,720	128,230	-	242,780	119,929	-
FVTOCI – Loans and receivables	-	20,183	-	-	17,534	-
Liabilities						
Derivative financial instruments	-	7,787	-	-	2,588	-

Specifically for fixed income securities, Level 1 includes quoted prices in official markets and those disclosed by market providers that are usually market makers in the respective assets/liabilities when the market is considered as active and Level 2 includes the remaining securities whose valuation is obtained through quotes published by independent entities but whose markets are not considered as official markets or have a lower level of liquidity.

Fair value of financial instruments not measured at fair value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

\$'000	31.12.2019				31.12.2018			
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
Assets								
Financial assets at amortised value	45,781	-	46,742	-	29,715	2,664	26,873	-
Debtors ^{a)}	266,837	266,837	-	-	293,643	293,643	-	-
Cash at bank and in hand	1,667	1,667	-	-	9,147	9,147	-	-
Liabilities								
Creditors ^{a)}	667,978	667,978	-	-	597,551	597,551	-	-

^{a)} excluding derivative financial instruments which are measured at fair value

Below are the methodologies and assumptions used to determine fair values for the above financial instruments, which are not recorded and measured at fair value in the Company's financial statements.

These fair values were calculated for disclosure purposes only. Management have assessed that the carrying value of these financial instruments is a reasonable approximation of the fair value.

Short-term financial assets and liabilities: For financial assets and financial liabilities that have a short-term maturity (less than one year), the carrying amounts, which are net of impairment, are a reasonable approximation of their fair value. Such instruments include: cash at bank and in hand, debtors and creditors. Such amounts have been classified as Level 1 on the basis that no adjustments have been made to the balances in the statement of financial position.

Loans and receivables: For fixed income securities the fair value was estimated based on prices/market quotes, using the same methodology as for the fair value through other comprehensive income instruments.

17. Related party disclosures

During the year, the Company did not enter into any transactions with a related party. At the balance sheet date, the Company did not have any balance with related parties.

As per note 1, the Company is taking advantage of the disclosure exemptions available over IAS 24 relating to transactions that occur within a group of entities with a common parent, who report the related party transaction of that group at the consolidated level.

18. Ultimate parent company and controlling party

The immediate parent undertaking is Banco Finantia S.A. (the parent company of the smallest group for which consolidated financial statements are prepared), which is incorporated in Portugal. The consolidated financial statements for Banco Finantia Group can be obtained from Banco Finantia S.A., Rua General Firmino Miguel 5-1, 1600 Lisbon, Portugal.

The ultimate parent undertaking and controlling party is Finantipar, S.A., a holding company incorporated in Portugal, which is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2019. The consolidated financial statements of Finantipar, S.A. available from Rua General Firmino Miguel 5-1, 1600 Lisbon, Portugal.

19. Subsequent events

Management is considering the potential economic impact to the Company of the recent global COVID-19 outbreak. A number of front and back office employees and clients are currently operating successfully from remote locations, on the advice of local governments. IT and communications resources available to the Company has ensured that all staff can continue to work effectively and keep in regular contact with colleagues and clients, and as a result disruption has been kept to a minimum. The recent decrease in financial market activity is resulting in lower trading volumes and therefore revenues, however as part of its going concern review, the Company has sensitivity analysed the potential impact of a significant downturn in levels of revenue/net interest income on profitability, a highly stressed expected credit loss scenario – which is an extremely remote event – on the fair value portfolio, and the resultant outcome was a regulatory capital surplus. The assessment also considered the significance of the Company to the Group, the support, albeit a remote requirement, which Group is able to provide and the high capital buffer of the Group as a whole. COVID-19 is considered as a non-adjusting post balance sheet event. Management has no reason at this time to believe that this will affect the going concern status of the Company.

There are no other significant events after the balance sheet date.