Tradition (UK) Limited

Strategic Report, Directors' Report and Statutory Financial Statements
31 December 2018
Registered No: 00937647

Contents

General Information

Directors	M Abbott (Chairperson) C Baillet F Brisebois H de Carmoy M Leibowitz D Marcus M McCaig W Wostyn M Anderson S Vjestica
Secretary	P Weston
Registered Office and Principal Place of Business	Beaufort House 15 St Botolph Street London EC3A 7QX
Auditors	Ernst & Young LLP 25 Churchill Place London E14 5EY
Solicitors	Mayer Brown International LLP 201 Bishopsgate London EC2M 3AF
Bankers	NatWest 120 - 122 Fenchurch Street London EC3M 5AN

Strategic report

The directors present their Strategic Report for the year ended 31 December 2018.

Results

Tradition (UK) Limited (the "Company") recognised a profit for the year after taxation and other comprehensive income of £139k (2017: profit £1,262k) as shown in the Statement of Comprehensive Income on page 10. The directors do not recommend paying an interim or a final dividend (2017: interim £nil and final £nil).

Principal activities and review of the business

The principal activity of the Company is the broking of money market instruments, repos and other fixed income and rate driven products. The Company for the period of the accounts was authorised and regulated by the Financial Conduct Authority.

The Company is an entity within the Tradition UK Group which also comprises TFS Derivatives Limited, Tradition Financial Services Limited, ParFX (UK) Limited, Tradition London Clearing Limited, Tradition Management Services Limited and TFS-ICAP Limited a joint venture where the Group has a minority holding.

For the period of account the Company recognised the Trad-X business activities as part of its results. The directors will assess the most appropriate time for a transfer of Trad-X into its own legal entity to happen.

The Company has key regulatory indicators including regulatory capital, which is monitored on an ongoing basis. The Company's other key financial indicators are turnover and operating profit. Turnover increased from £83,756k to £99,750k, an increase of 19%. Administrative expenses of £106,290k have increased by £20,472k year on year. The operating loss for the year was £6,540k (2017: loss of £2,062k). The Company recognised other income relating to the provision of electronic data to third parties (data sales) of £4,152k, an increase of £447k over the prior year. After allowing for dividends received of £2,390k (2017: nil), net interest receivable of £110k (2017: £152k) and other comprehensive income of £nil (2017: £5k) the Company recognised a profit for the year after taxation of £139k (2017: profit of £1,262k) increasing shareholders' funds from £23,637k to £23,776k. Cash at bank and in hand increased to £13,680k (2017: £9,849k). Creditor amounts falling due within one year increased to £38,278k (2017: £23,005), driven by an increase in amounts due to group undertakings.

In 2017 the Company transferred the operating results of a repo / collateral venture (Elixium) to Tradition Financial Services Limited, another Tradition UK Group company. The transfer out was a significant portion of the administrative expenses (2017: £3,723k). The transfer had no impact on the tax position of the Tradition UK Group as both entities are part of the same tax group. In 2018 the results for Elixium have been recorded in the Company.

There is no doubt that electronic platforms are growing in importance however the default model would appear to be a hybrid model where the broker remains involved. Given this has been the Tradition Group strategy; the Company does not see the prevalence of electronic platforms as an imminent threat although it is something that is continually monitored.

Strategic report

Principal risks and uncertainties

In June 2016 the United Kingdom held a referendum to determine whether Britain should exit the European Union ("Brexit"). The results were in favour of leaving. The negotiation of terms and actual exit is expected to continue during 2019. The United Kingdom was due to leave the European Union on 29th March 2019 however this leave date has been postponed. At present it is unclear whether there will be a political agreement on this departure and the consequences of this on, for example, the ability to service clients in the EU27 from the United Kingdom and to access venues in the EU27 from the United Kingdom. The Tradition UK Group has put into action contingency plans to aim to ensure as far as is possible continuity of service to clients. As significant uncertainty still exists around what Brexit will actually mean for the UK financial markets, and the Company, this has been recorded on the risk register. The Tradition UK Board has considered and debated the issues around Brexit and has a coherent strategy to deal with it.

The Company operates as an inter-dealer broker in various financial markets. As such it does not take any proprietary positions and acts solely as an intermediary for clients. The main risks facing the business arising out of its broking activities are predominantly operational risk, credit risk, liquidity risk, conduct risk, legal and reputational risk. As it doesn't take proprietary positions, even on a matched principal basis, credit risk is limited to creditworthiness of counterparties when collecting revenues and interest rate risk and market risk are limited (refer to Note 22: Financial risk management policies and objectives). The Company operates in a competitive environment and therefore is also subject to changes in markets or the actions of competitors.

By order of the board
P Weston
Company Secretary
17 April 2019

Directors' report

Registered No: 00937647

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

Directors and their interests

The directors who served during the year and up until the date of signing were as follows:

M Abbott
C Baillet
F Brisebois
H de Carmoy
M Leibowitz
D Marcus
M McCaig
S A Umpelby (Resigned 01/02/2019)
W Wostyn
M Anderson
S Vjestica

None of the directors had any beneficial interest in the share capital of the Company or any other Tradition UK group company at any time during the year.

Directors' liabilities

The Company has granted an indemnity to one or more directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year.

Going concern

The directors are satisfied that the Company has adequate resources to continue to operate for the 12 months from the reporting date of the financial statements and confirm that the Company is a going concern. For this reason they continue to adopt the going concern basis in preparing these financial statements.

Financial instruments

The Company finances its activities with a combination of cash and short term deposits. 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 forward currency contracts. The purpose is to manage the currency risks arising from the Company's operations and its sources of finance.

Financial instruments give rise to market, foreign currency, interest rate, credit, price and liquidity risk. Information on how these risks arise are detailed in Note 22, as are the objectives, policies and processes for their management and the methods used to measure each risk.

Directors' report

Registered No: 00937647

Financial instruments (continued)

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 forward contracts are recorded at fair value (see Note 19: Derivative Financial Instruments). The maturity profiles of the current year contracts within assets are set to mature within 3 months (£9k) and between 3 and 6 months (£4k) and the contracts recorded in liabilities are set to mature within 3 months (15k) and between 3 and 6 months (11k).

Future developments

The Company focuses on maintaining and developing its position as a key player in the wholesale inter-dealer broker market as part of the global Tradition brand. The directors will assess the most appropriate time for the transfer of Trad-X into its own regulated entity.

Subsequent Events

Post balance sheet close the Company removed the restriction on authorised share capital following a written resolution passed by the directors on 12th February 2019. The Company subsequently issued a further 6,250,000 ordinary shares of £1 each to Tradition Service Holding SA in exchange for a reduction in an intra-group loan payable to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £21,050k to £27,300k.

In addition to the capital injection, Tradition Service Holding SA also injected cash of £2m before the end of February 2019.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

The auditor in office will be deemed to have been re-appointed pursuant to section 487(2) of the Companies Act 2006 unless the members or directors resolve otherwise.

By order of the board

P Weston
Company Secretary
17 April 2019

Statement of directors' responsibilities in respect of the financial statements

The following statement, which should be read in conjunction with the independent auditors report on pages 7 - 9, is made by the directors to explain their responsibilities in relation to the preparation of the Directors' Report, Strategic Report and Financial Statements.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards including Financial Reporting Standard 101 'Reduced Disclosure Framework' 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 of the Company for that period.

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

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company had complied with FRS 101, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that 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 satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements are prepared on a going concern basis.

Independent auditors' report

to the members of Tradition (UK) Limited

Opinion

We have audited the financial statements of Tradition (UK) Limited ("The Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, 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.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with 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.

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.

Independent auditors' report

to the members of Tradition (UK) Limited

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.

Independent auditors' report

to the members of Tradition (UK) Limited

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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.

Ernst & Young LLP

Helen Joseph (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

17 April 2019

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	*2018* *£000*	*2017* *£000*
Turnover	3	99,750	83,756
Administrative expenses		(106,290)	(85,818)
Operating (Loss)	4	(6,540)	(2,062)
Other income		4,152	3,705
Dividends received from group undertakings		2,390	-
Profit before interest and tax		2	1,643
Interest receivable	5	138	154
Interest payable	6	(28)	(2)
Profit on ordinary activities before tax		112	1,795
Tax credit / (charge) on Profit on ordinary activities	9	27	(528)
Profit for the year		**139**	**1,267**
Other Comprehensive Income for the year		-	(5)
Total Comprehensive Profit for the year		**139**	**1,262**

The Notes on pages 13 – 38 form part of these financial statements.

Balance Sheet

at 31 December 2018

	Notes	2018 £000	2017 £000
Fixed Assets			
Investments – non-current	10	115	113
Current assets			
Trade and other receivables	11	48,038	37,045
Corporation tax		142	-
Cash at bank and in hand	13	13,680	9,849
Deferred tax	14	79	95
		61,939	46,989
Current liabilities			
Creditors: amounts falling due within one year	12	(38,278)	(23,005)
Corporation tax		-	(460)
		(38,278)	(23,465)
Net current assets		23,661	23,524
Net assets		**23,776**	**23,637**
Capital and reserves			
Called up share capital	15	21,050	21,050
Other Reserves		-	17
Profit and loss account		2,726	2,570
Shareholders' funds		**23,776**	**23,637**

The Notes on pages 13 – 38 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 17 April 2019 and were signed on its behalf by:

M Anderson
Director

Statement of Changes in Equity
at 31 December 2018

	Share capital	*Other Reserves*	*Retained earnings*	*Total equity*
	£000	*£000*	*£000*	*£000*
At 1 January 2017	21,050	22	1,303	22,375
Profit for the year	-	-	1,267	1,267
Other Comprehensive Income	-	(5)	-	(5)
At 31 December 2017	**21,050**	**17**	**2,570**	**23,637**
At 31 December 2017 as reported	**21,050**	**17**	**2,570**	**23,637**
Impact from changes in accounting policies (see Note 10)	-	(17)	17	-
At 1 January 2018 as restated	**21,050**	-	**2,587**	**23,637**
Profit for the year	-		139	139
Other Comprehensive Income		-		-
At 31 December 2018	**21,050**	-	**2,726**	**23,776**

Post balance sheet close the Company removed the restriction on authorised share capital following a written resolution passed by the directors on 12th February 2019. The Company subsequently issued a further 6,250,000 ordinary shares of £1 each to Tradition Service Holding SA in exchange for a reduction in an intra-group loan payable to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £21,050k to £27,300k.

The Notes on pages 13 – 38 form part of these financial statements.

Notes to the financial statements

at 31 December 2018

1. Authorisation of financial statements

The financial statements of Tradition (UK) Limited for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 17 April 2019, and the balance sheet was signed on their behalf by M Anderson. The directors have the power to amend and reissue the financial statements.

Tradition (UK) Limited is a private limited company and is incorporated, domiciled and registered in England.

2. Accounting policies

2.1 Significant accounting policies

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

2.2 New, revised or amending Accounting Standards and Interpretations adopted

The Company adopted the following standards as of 1 January 2018:

Standard	Name	Effective date
IFRS 9	'Financial Instruments'	1 January 2018
IFRS 15	'Revenue from contracts with customers'	1 January 2018

IFRS 9 'Financial Instruments' replaces IAS 39. The Company has elected to apply this standard using a modified retrospective approach where the comparative period is presented in accordance with IAS 39. The adoption of IFRS 9 at 1 January 2018 entailed a change in the way financial instruments are presented on the balance sheet, but has no significant impact on their measurement. See Note 25 for the Transition Disclosure and for further information on IFRS 9 please see Note 2.11.

IFRS 15 'Revenue from contracts with customers' outlines the principles an entity must apply to measure and recognise revenue. The Company has elected to apply this standard using a modified retrospective approach where the comparative period is presented in accordance with IAS 18. There was no catch up recorded in the Retained Earnings as of 1 January 2018. The new Standard establishes a five-step model to account for revenue deriving from contracts with customers. The standard requires an entity to recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. For further information on IFRS 15 see Note 2.4.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become mandatory.

IFRS 16 'Leases' will be applicable as of 1 January 2019 and requires lessees to account for all leases under a single on-balance sheet model. The Company will apply this standard using a modified retrospective approach where IFRS 16 will be applied only to contracts that are ongoing as at 31 December 2018. The comparative period will be presented in accordance with IAS 17. The Company does not have any ongoing lease contracts as at 31 December 2018 and thus does not expect any impact on its financial statements from the initial application of IFRS 16.

Notes to the financial statements

at 31 December 2018

2.3 Basis of preparation

As permitted by FRS 101, the Company has taken advantage of the following disclosure exemptions;

a) Comparatives for tangible and intangible fixed asset reconciliations;
b) Cash flow statements;
c) Key management compensation;
d) Related party transactions between wholly owned group companies; and
e) Impairment of assets;

The financial statements have been prepared under the historical cost convention, with the exception of derivative instruments, which are recorded at fair value, and in accordance with the Companies Act 2006 and the FRS 101 Reduced Disclosure Framework. The financial statements have been prepared on a going concern basis.

The Company's financial statements are presented in GBP and all values are rounded to the nearest one thousand pounds (£1k), except when otherwise stated.

2.4 Revenue recognition

IFRS 15 "Revenue from Contracts with Customers" establishes a five-step model to account for revenue deriving from contracts with customers, where revenue is recognised as and when 'control' of the goods and services underlying a particular performance obligation is transferred to the customer. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

Agency Transactions (name give up)

Derivatives broking is transacted on an arranging, execution and give up basis. Revenues earned on an agency basis are recognised on trade date (when the transaction is enforced between the counterparties) as there are no further services rendered to the clients once the deal is done. Revenue is recognised net of any rebates or discounts. Outstanding brokerage is reflected on the balance sheet as trade debtors.

Data Sales

Revenues generated and costs incurred from the provision of electronic data to third parties is initially recognised in Tradition Management Services Limited on an accrual basis, and then transferred to the Company's books and records. The revenue continues to be recognised over the duration of the contract for the provision of these services. The Data Sales revenue is recorded in Other Income.

Disaggregation of Revenue from Contracts with Customers

The Company derives revenue from Contracts with Customers as described below. The Derivatives Broking covers money market instruments, repos other fixed income and rate driven products, and the revenue is recognised net of any intercompany transfers of the same revenue type. The core customers of the Company are banks and financial institutions.

The following table disaggregates the revenue generated from Contracts with Customers.

	2018	*2017*
Type of Contract:	*£000*	*£000*
- Agency Transactions (name give up)	88,228	71,902
- Provision of Data	4,152	3,705
Total Revenue from Contracts with Customers	92,380	75,607

Notes to the financial statements

at 31 December 2018

2.4 Revenue recognition (continued)

The other main source of revenue for the Company relates to Matched Principal transactions where the revenue is built into the price of exchange of financial assets and liabilities. The revenue for Matched Principal transactions is dictated under IFRS 9.

Matched Principal Transactions

Matched Principal trades are completed when both sides of the deal are settled, namely once payment is made and the securities are delivered (matched trades). In order to reflect the substance of these transactions, they are recognised on trade date. The settlement services are provided by Tradition London Clearing Limited, a fellow subsidiary undertaking in the Tradition UK Group. Counterparty receivables and payables arising on current transactions that have gone beyond expected settlement date are carried gross on the balance sheet of Tradition London Clearing Limited under "trade and other receivables" or "creditors: amounts falling due within one year".

2.5 Interest income and expenses

Interest income and expenses are recognised on an accruals basis.

2.6 Dividend income

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

2.7 Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

2.8 Foreign currencies

The functional currency of the company is GBP. Transactions in foreign currencies are translated at the rate ruling at the date of the transaction.

Monetary assets and liabilities expressed in foreign currencies are retranslated into sterling at the rates of exchange ruling on the first day of the month in which the transactions take place and are revalued at the balance sheet date. Gains and losses on foreign exchange are included in arriving at the profit or loss before taxation.

2.9 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:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- 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 measured 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.

Notes to the financial statements

at 31 December 2018

2.9 Income Taxes (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

2.10 Pensions

The Company operates a defined contribution scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

2.11 Financial instruments

IFRS 9 'Financial Instruments' was adopted with effect from 1 January 2018 and entailed a change in the way financial instruments are presented on the balance sheet, but has no impact on measurement. The comparative period has not been restated and is shown in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

i) Financial assets

Initial recognition and measurement

With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39. Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments (i) amortised cost, (ii) fair value through other comprehensive income ("FVOCI") and (iii) fair value through profit or loss ("FVTPL"). Equity investments in scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the transaction date, i.e., the date that the Company commits to purchase or sell the asset. The Company's financial assets include cash and short-term deposits, trade and other receivables and derivative financial instruments.

Receivables are initially measured at their transaction price if they do not contain a significant financial component. Other financial assets are initially measured at their transaction price if they do not contain a significant financial component. Other financial assets are initially measured at fair value; financial assets not measured at fair value through profit or loss are measured at fair value plus transaction costs directly attributable to the acquisition of the asset.

Notes to the financial statements

at 31 December 2018

2.11 Financial instruments (continued)

i) ***Financial assets (continued)***

Subsequent measurement

All recognised financial assets are subsequently measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

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

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

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost

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

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset.

Trade and other receivables are measured at amortised cost using the effective interest method minus impairment losses.

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through profit of loss

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income.

Other equity instruments are measured at fair value through profit or loss as are derivative financial instruments except if the derivative instrument is designated as a hedging instrument.

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss model' in IAS 39 with an 'expected credit loss' ('ECL') model. The new impairment model applies to financial assets measured at amortised cost and debt investments FVOCI but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Notes to the financial statements

at 31 December 2018

2.11 Financial instruments (continued)

ii) Impairment of financial assets (continued)

Under IFRS 9, impairment of a financial asset measured at amortised cost is calculated using the ECL model. The ECL allowance is based on the credit losses expected to arise over the life of the asset and are calculated based on either;

- 12 month ECLs: these are ECLs that result from expected default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all expected default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company has elected to measure loss allowances for Broking Receivables and Personal Loans at an amount equal to lifetime ECLs. The calculated ECL for other financial assets was deemed immaterial and has not been recognised. Only the loss allowance for personal loans has been assessed on an individual basis, the loss allowance for Broking Receivables and other financial assets were assessed on a collective basis.

Forward looking macroeconomic scenarios and their probability weightings are used to derive the economic inputs in the ECL models. Credit losses are measured as the present value of all cash shortfalls, representing the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and recognised in the P&L.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified at fair value through profit and loss or amortised cost. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value; financial liabilities not measured at fair value through profit or loss are measured at fair value minus transaction costs directly attributable to the issue of that liability.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Notes to the financial statements

at 31 December 2018

2.11 Financial instruments (continued)

iii) Financial liabilities (continued)

Financial liabilities at amortised cost

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, 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, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

iv) Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

v) Derivative financial instruments

The Company uses derivative financial instruments such as forward currency to hedge its risks associated with foreign currency fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.12 Investments – non-current

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

Investments in securities were previously held as available-for-sale under IAS 39 and valued at market at balance sheet date. The Company has elected to measure these items at FVTPL following the adoption of IFRS 9. See Note 10 for further information and Note 25 for Transitional disclosure.

Notes to the financial statements

at 31 December 2018

2.13 Provision for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.14 Impairment

The carrying values of the fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is provided for in the current period profit and loss account when the carrying value of an asset exceeds its recoverable amount. The estimated recoverable amount is defined as the higher of the fair value less costs of disposal and value in use. The value in use is determined by reference to estimated future discounted cash flows.

2.15 Consolidated financial statements

The Company has taken advantage of section 400 Companies Act 2006 allowing it not to publish consolidated financial statements, as this information is included within the consolidated financial statements of its parent undertaking, which are publicly available from its registered office as referred to in note 16 to these financial statements.

2.16 Judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with FRS 101 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes. There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

3. Turnover and segmental reporting

Turnover represents commissions receivable in connection with the broking of money market instruments, repos and other fixed income and rate driven products, net of any VAT and trade discounts given, and is recognised as earned when 'control' of the goods and services underlying a particular performance obligation is transferred to the customer.

The Company has not disclosed segmental information as it is out of scope of IFRS 8 and is included within the consolidated financial statements of its parent undertaking, which are publicly available as referred to in note 16 of these financial statements.

4. Operating loss

This is stated after charging:

	2018	*2017*
	£000	*£000*
(Loss) / Gain on foreign exchange	(35)	261
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the annual accounts	118	112
Other assurance related services	16	44
	134	156

Notes to the financial statements
at 31 December 2018

5. Interest receivable

	2018	2017
	£000	£000
Interest receivable on bank deposits	-	20
Interest receivable on balances due from group companies	138	134
	138	154

6. Interest payable

	2018	2017
	£000	£000
Interest paid	(28)	(2)

7. Directors' remuneration

	2018	2017
	£000	£000
Directors' remuneration	1,413	2,429
Pension contribution	2	4
	1,415	2,433
Remuneration of highest paid director	879	878
Pension contribution	1	1
	880	879

Some of the directors of the Company are remunerated by other Tradition UK group companies or Compagnie Financière Tradition SA group companies and particulars of their remuneration are included within the financial statements of those relevant companies. For the directors who are remunerated by Compagnie Financière Tradition SA, the full details of their remuneration can be found in the remuneration report section of the publicly available Compagnie Financière Tradition SA annual report. Where disclosure is not made in the Compagnie Financière Tradition SA annual report the estimated remuneration for services for the Company by the director's is included in the Directors remuneration total above.

The number and total amount of loans to directors, connected persons and officers outstanding as at 31 December 2018 was nil (2017: 1) and £nil (2017: £33k) respectively.
The terms and conditions of these loans are as follows:
Interest rate – the loans are interest free;
Repayment date – the loans are repayable from future bonuses and subject to the terms and conditions below;
Terms and conditions – in the event of termination of employment, the loans are repayable in full or, where appropriate, off-set against applicable severance payments.
The carrying amount of the amount of the loans to directors is a reasonable estimate of their fair value.

Notes to the financial statements

at 31 December 2018

8. Staff costs

Employment costs are included within administrative expenses in the Statement of Comprehensive Income. Employment costs incurred by the Company (including directors) during the year were as follows:

	2018	2017
	£000	£000
Wages and salary costs	52,258	44,776
National insurance contributions	7,151	6,004
Other pension, life assurance and staff benefits	913	938
	60,322	51,718

Average number of persons employed (including directors):

	2018	2017
	No.	No.
Dealing	174	171
Administration	39	28
	213	199

The Company makes contributions at variable rates to certain employees' pension plans. The pension cost charge represents contributions payable by the Company to the plans amounting to £227k (2017: £176k). The amount of outstanding pension contributions at the year-end was £nil. (2017: £nil).

9. Taxation

	2018	2017
	£000	£000
UK corporation tax (credit)/charge – current year	(143)	461
UK corporation tax (credit) – prior year	(19)	(18)
Overseas withholding tax suffered	119	-
	(43)	443
Deferred tax movement (note 14)	16	85
Total tax (credit) / charge for the year	(27)	528

Notes to the financial statements
at 31 December 2018

9. Taxation (continued)

Factors affecting the tax charge for the year
The tax charges for the periods vary from the standard rate of corporation tax in the UK. The differences are explained below:

	2018	*2017*
	£000	*£000*
Profit on ordinary activities before tax	112	1,795
At average rate of corporation tax of 19.00% (2017: 19.25%)	21	345
Expenses not allowable for tax purposes	293	294
Adjustment in respect of transfer pricing	(107)	(91)
Reallocations adjustment	122	
Adjustment in respect of prior years	(19)	(18)
Intragroup Dividends	(454)	-
Overseas tax	119	-
Reduction in corporation tax rate	(2)	(2)
Total tax (credit) / charge reported in the statement of comprehensive income	(27)	528

10. Investments – non-current

	AFS – Unlisted Shares	*AFS-Other Investments*	*FVTPL – Unlisted Shares*	*FVTPL – Other Investments*	*Investments in Subsidiary*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Fair Value of Investments:						
As at 31 December 2017	4	17	-	-	92	113
IFRS 9 Reclassification – 1 Jan 2018	(4)	(17)	4	17	-	-
As at 1 January 2018	-	-	4	17	92	113
2018 – fair value adjustment (FVTPL)	-	-	-	2	-	2
As at 31 December 2018	-	-	4	19	92	115

Financial assets at fair value through profit and loss
Following the adoption of IFRS 9 at 1 January 2018, the Company has elected to classify and measure the following two items at Fair Value through Profit and Loss (previously classified as Available for Sale under IAS 39). An amount of GBP 17k relating to unrealised gains on these investments was transferred from the revaluation reserve (Other reserves) to retained earnings at 1 January 2018, with no impact on the Company's total equity. See Note 25 for Transitional Disclosure.

Notes to the financial statements
at 31 December 2018

10. Investments – non-current (continued)
The unlisted shares represent a 9.1% interest in Automated Confirmation Service Limited, a company registered in England. In the directors' opinion this investment is adequately carried at cost less permanent diminution in value. The carrying value of the investment is a reasonable estimate of the fair value.

Other investments represent a holding of 9,155 Oil Index Obligations in connection with Republic of Venezuela Bonds denominated in USD. These investments were valued at market in 2018 (USD 24k or GBP 19k) and 2017 market value (USD 23k or GBP 17k).

Investment in subsidiary
Investments in subsidiary undertakings represents 100% of the share capital of Tradition Government Bond Brokers and Derivatives Brokers (Pty) Limited, a company registered in South Africa. The details of the subsidiary undertaking are set out below:

Cost and net book value:				*2018*	*2017*
	Country of incorporation	*%*	*Principal Activity*	*£000*	*£000*
Tradition Government Bond Brokers and Derivatives Brokers (Pty) Limited	South Africa	100	Bond & Derivatives broking	92	92

The registered address is Kilarney Block 5, Fourways Golf Park, Roos Street, Fourways, Johannesburg 2055, South Africa.

11. Trade and other receivables

	2018	*2017*
	£000	*£000*
Trade debtors	15,088	10,738
Other debtors	1,733	1,146
Foreign exchange forward contracts	13	73
Prepayments and accrued income	4,820	896
Other taxation and social security	80	-
Amounts due from group undertakings	23,204	21,092
Loan receivable from group undertaking	3,100	3,100
	48,038	37,045

Notes to the financial statements

at 31 December 2018

11. Trade and other receivables (continued)

The amounts due from group undertakings include a loan with Tradition Management Services Limited, a fellow subsidiary undertaking of the Tradition UK Group of £10,260k (2017: £10,260k) which is unsecured, repayable on demand and bears interest at 1.25% p.a. (2017: 1.25% p.a.).

The amounts due from group also include funds receivable from Tradition Management Services Limited in respect of performance related employee loans which are issued by Tradition Management Services Limited on behalf of the Company.

The Loan receivable from group undertaking is a loan with Tradition Service Holdings S.A, its immediate parent Company of £3,100k (2017: £3,100k). The loan is unsecured, has no fixed date for repayment and bears interest of 0.25% p.a. above the UK Base Rate and (2017: 0.25% p.a. above the UK Base Rate).

12. *Creditors: amounts falling due within one year*

	2018	*2017*
	£000	*£000*
Accruals and other creditors	15,723	11,821
Foreign exchange forward contracts	26	13
Trade creditors	215	208
Other taxation and social security	1,743	1,753
Subordinated loan due to group undertaking	3,100	3,100
Amounts due to group undertakings	17,471	6,110
	38,278	23,005

The subordinated loan of £3,100k comprises amounts advanced by the parent undertaking, Tradition Service Holding S.A., carries interest at 0.25% p.a. above the UK Base Rate and has no fixed date for repayment. The interest rate is equal to the effective rate of interest as there have been no fees charged on the loan. This loan is classified as a short term loan and forms part of the Company's regulatory capital resources. Although there is no intention to repay the loan at reporting date, the time hurdle has now passed and can be repaid only if approval from the Financial Conduct Authority has been granted.

13. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 December 2018:

	2018	*2017*
	£000	*£000*
Cash at bank and on hand	13,680	9,849
Cash and cash equivalents	13,680	9,849

Notes to the financial statements
at 31 December 2018

14. Deferred tax

	2018	*2017*
	£000	*£000*
Depreciation in excess of capital allowances	79	95
	79	95

	2018	*2017*
	£000	*£000*
Asset at start of year	95	180
Charge for the year	(18)	(87)
Reduction in corporate tax rate	2	2
Asset at end of year	79	95

The Company has unutilised capital losses arising of £9,336k (2017: £9,336k) that are available for offset against future capital gains. A deferred tax asset has not been recognised in respect of these capital losses due to uncertainty surrounding the Company's future expectation of chargeable capital gains.

On 16 March 2016 the UK Government announced that the UK corporation tax rate will be reduced to 17% with effect from 1 April 2020. Deferred tax assets have been measured at 17.00% (2017: 17.00%) representing the rate at which the deferred tax balances are expected to unwind.

15. Called up share capital

(a) Authorised share capital

	2018	*2017*
	£000	*£000*
50,000,000 ordinary shares of £1 each	50,000	50,000

(b) Issued share capital

Allocated, called up and fully paid:	Ordinary shares of £1 each	
	Number of shares	*Nominal value*
	£000	*£000*
As at 1 January 2018	21,050	21,050
Issued during the year	-	-
As at 31 December 2018	21,050	21,050

The ordinary shareholders have one vote and participate equally in the event of the winding up of the Company.

Notes to the financial statements
at 31 December 2018

15. Called up share capital (continued)

Post balance sheet close the Company removed the restriction on authorised share capital following a written resolution passed by the directors on 12th February 2019. The Company subsequently issued a further 6,250,000 ordinary shares of £1 each to Tradition Service Holding SA in exchange for a reduction in an intra-group loan payable to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £21,050k to £27,300k.

16. Parent undertaking

The Company's immediate parent undertaking is Tradition Service Holding S.A., a company registered in Switzerland. Tradition Service Holding S.A. in turn is a subsidiary of Compagnie Financière Tradition SA which is also registered in Switzerland. Compagnie Financière Tradition SA has included the Company in its group accounts, copies of which are publicly available.

In the directors' opinion, the Company's ultimate parent company and controlling party is Viel et Compagnie Finance SE, which is incorporated in France. Copies of its group accounts, which include the Company, are publicly available.

17. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Those transactions with directors are disclosed in note 7. The Company has taken advantage of the exemption under paragraph 8 (K) not to disclose the amount of the related party transactions. The trading balances outstanding at 31 December with other related parties are as follows:

Related party	*Amounts owed by related party £000*	*Amounts owed to related party £000*
Joint ventures		
2018	-	-
2017	-	56
Shareholder and associated companies		
2018	26,304	20,571
2017	24,192	9,154

Receivables from shareholder and associated companies and payables to shareholder and associated companies include all receivables and payables due to or by VIEL et Compagnie-Finance, Paris, the ultimate majority shareholder and all subsidiaries of that company.

Terms & Conditions
Outstanding balances with related parties are unsecured, interest free and cash settled, with the exception of the loans described in Notes 11 and 12. The Company has not provided or benefited from any guarantees or commitments for any related party receivables or payables. During the year ended 31 December 2018, the Company has not made any provision for expected credit losses relating to amounts owed by related parties (2017: £nil).

Notes to the financial statements

at 31 December 2018

18. Capital management

The responsibility for the Company's capital planning lies with the Board of Directors (the "Board"). Any changes to capital are proposed to the Board and also require the approval of Compagnie Financière Tradition SA (refer to Note 16).

Capital is generated from shareholder funds. Shareholder funds are in the form of share capital and retained earnings. In addition, the Company can increase its regulatory capital resources through finance obtained from its immediate parent company, Tradition Service Holding S.A as described in Note 24: Events after Balance Sheet Date.

19. Derivative financial instruments

The Company uses derivative financial instruments such as forward currency to hedge its risks associated with foreign currency fluctuations. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The forward contracts are recorded at fair value. The maturity profiles of the current year contracts within assets are set to mature within 3 months (£9k) and between 3 and 6 months (£4k) and the contracts recorded in liabilities are set to mature within 3 months (15k) and between 3 and 6 months (11k).

The fair value of the derivatives held at the balance sheet date, determined by reference to their market value is as follows:

	2018	*2017*
	£000	*£000*
Current financial assets		
Forward foreign currency contracts	13	73
Current financial liabilities		
Forward foreign currency contracts	26	13

20. Analysis of financial assets and liabilities by measurement basis

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

Notes to the financial statements

at 31 December 2018

20. Analysis of financial assets and liabilities by measurement basis (continued)

	Loans and receivables	*Financial assets and liabilities at amortised cost*	*Financial assets and liabilities at fair value through profit or loss*	*Available for Sale*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
2018					
Assets					
Cash at bank and in hand	-	13,680	-	-	13,680
Trade debtors	-	15,088	-	-	15,088
Other Debtors	-	1,733	-	-	1,733
FX forward contract	-	-	13	-	13
Amounts due from group undertakings	-	23,204	-	-	23,204
Loan receivable from group undertaking	-	3,100	-	-	3,100
Investments – non-current	-	92	23	-	115
Total financial assets	-	56,897	36	-	56,933
Total non-financial assets					5,121
Total assets					**62,054**
Liabilities					
Trade creditors	-	215	-	-	215
FX forward contract	-	-	26	-	26
Amounts due to group undertakings	-	17,471	-	-	17,471
Loan due to group undertaking	-	3,100	-	-	3,100
Total financial assets	-	20,786	26	-	20,812
Total non-financial assets					17,466
Total liabilities					**38,278**

	Loans and receivables	*Financial assets and liabilities at amortised cost*	*Financial assets and liabilities at fair value through profit or loss*	*Available for Sale*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
2017					
Assets					
Cash at bank and in hand	9,849	-	-	-	9,849
Trade debtors	10,738	-	-	-	10,738
Other Debtors	1,146	-	-	-	1,146
FX forward contract	-	-	73	-	73
Amounts due from group undertakings	21,092	-	-	-	21,092
Loan receivable from group undertaking	3,100	-	-	-	3,100
Investments – non-current	92	-	-	21	113
Total financial assets	46,017	-	73	21	46,111
Total non-financial assets					991
Total assets					**47,102**
Liabilities					
Trade creditors	-	208	-	-	208
FX forward contract	-	-	13	-	13
Amounts due to group undertakings	-	6,110	-	-	6,110
Loan due to group undertaking	-	3,100	-	-	3,100
Total financial assets	-	9,418	13	-	9,431
Total non-financial assets					14,034
Total liabilities					**23,465**

Notes to the financial statements

at 31 December 2018

21. Fair value of financial assets and liabilities

Forward currency exchange contracts fair value was determined using quoted forward exchange rates matching the maturities of the contracts.

There are no material differences between the carrying value and the fair value of financial assets and liabilities at amortised cost as at 31 December 2018 and 31 December 2017.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are based on unobservable market data.

As at 31 December, the Company held the following financial instruments measured at fair value:

	Total	*Level 1*	*Level 2*	*Level 3*
	£000	*£000*	*£000*	*£000*
2018				
Assets measured at FVTPL				
Financial assets at fair value through profit and loss	23	-	23	-
FX forward contract	13	-	13	-
Liabilities measured at FVTPL				
FX forward contract	26	-	26	-
2017				
Assets measured at Fair Value				
Available for sale financial instruments - unlisted	4	-	4	-
Available for sale financial instruments at fair value through other comprehensive income	17	-	17	-
FX forward contract	73	-	73	-
Liabilities measured at FVTPL				
FX forward contract	13	-	13	-

Notes to the financial statements

at 31 December 2018

22. Financial risk management policies and objectives

The Company is primarily exposed to the following risks:

- Operational risk;
- Credit risk;
- Interest rate risk;
- Market risk;
- Liquidity Risk;
- Legal and Reputational risk; and
- Conduct risk.

Operational risk

The Company is exposed to operational risk losses in its day-to-day business from penalties, differences and errors in broking activities. Differences arise when transactions arranged by the Company between two counterparties are not completed at the original price. In such circumstances the Company may offer to compensate the counterparty for some or all of the difference between the original price and the transacted price. To manage this risk it is Company policy to complete transactions as quickly as possible at the next best available prices and all transactions should be completed by the end of each day. The Company is also exposed to the loss of key brokers, which historically it has experienced very rarely. In general, losses due to operational risk have been low in both volume and magnitude by ensuring that controls are adequate and effective to prevent future loss occurrence.

Credit risk

The Company is exposed to two kinds of credit risks; credit default risk which potentially impacts brokerage receivable, and concentration risk. The Company's core clients comprise banks and financial institutions with high credit ratings. The centralised Credit Committee, based at Compagnie Financière Tradition SA in Lausanne, has responsibility for assessing, challenging and deciding on credit ratings and trading limits for the matched principal business. Daily reports are used for monitoring and enforcement purposes. The credit team ensures that credit exposures are monitored and that appropriate management information is provided to the Company's management.

The Company assesses and manages the cash held with banks and the commission receivables from customers in order to assess and monitor any bad debts. Where recovery, of all or part of amounts due, is in doubt, a provision is set up so that the balance-sheet fairly reflects current expected credit losses. Oversight of the provision process is undertaken through the Credit Control Committee which also tracks the month to month credit and collections performance of its clients. The maximum credit risk exposure relating to financial assets is represented by carrying value of financial assets as at balance sheet date.

Loss Allowance

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all broking receivables and personal loans. The calculated ECL for other financial assets was deemed immaterial and has not been recognised.

The closing loss allowances for broking receivables and personal loans as at 31 December 2018 reconcile to the opening loss allowances as follows:

Notes to the financial statements
at 31 December 2018

22. Financial risk management policies and objectives (continued)

Loss allowance on broking receivables £000	*2018*	*2017*
Closing loss allowance as at 31 December 2017 (IAS 39)		-
Opening loss allowance as at 1 January 2018 (IFRS 9)	-	
(Increase) / decrease in Expected Credit Losses	(7)	-
Unused amount reversed	-	-
Closing loss allowance as at 31 December 2018	(7)	-

Loss allowance on personal loans £000	*2018*	*2017*
Closing loss allowance as at 31 December 2017 (IAS 39)		(575)
Opening loss allowance as at 1 January 2018 – IFRS 9	(575)	
(Increase) / decrease in Expected Credit Losses	25	-
Unused amount reversed	-	-
Closing loss allowance as at 31 December 2018	(550)	(575)

Interest rate risk
The Company's exposure to interest rate risk in the banking book is very limited since it does not conduct classical banking activity. The Company's exposure to interest rate risk arises from the possibility that changes in interest rates will affect the interest income or the net value of equity. However, the Company does not carry large interest bearing assets and/or liabilities on its balance sheet. Where interest bearing assets and liabilities exist, they are typically of short maturity (less than 12 months) and consequently this risk is marginal. Moreover, the bank pooling facility in place for the Tradition London group enables bank balances to be effectively managed on a daily basis and restrict the need for overnight overdraft positions thus limiting any interest charges thereon.

The table below sets out the effect on the future net interest income of an incremental 100 basis points (bps) parallel rise or fall in interest rates at the reporting date. The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost.

	Profit or (loss) 100 bps increase £000	*Profit or (loss) 100 bps decrease £000*
2018		
Cash and cash equivalents	137	(137)
2017		
Cash and cash equivalents	98	(98)

Notes to the financial statements

at 31 December 2018

22. Financial risk management policies and objectives (continued)

Market risk

The Company's revenues are predominantly in GBP, EUR and USD whilst its cost base is predominantly in GBP. This exposes the Company to foreign currency risk where the settlement of transactions is made in a currency other than GBP. It is Company policy to monitor foreign currency bank balances daily and, in order to minimise such risk, sells down surplus foreign currency balances on a regular basis. Moreover the risk management function, applies a hedging policy to proactively reduce foreign currency risk across the balance sheet.

The table below indicates the extent to which the Company was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the USD and EUR against GBP, with all other variables held constant, on the Statement of Comprehensive Income and equity.

	% Movement in Currency Rates	*Effect on Net Profit £000*	*Effect on Equity £000*
2018			
Currency			
EUR	5%	(95)	-
USD	5%	(71)	-
EUR	(5%)	104	-
USD	(5%)	79	-
2017			
Currency			
EUR	5%	(147)	-
USD	5%	(48)	-
EUR	(5%)	163	-
USD	(5%)	53	-

Liquidity risk

Liquidity Risk is the current or prospective risk arising from the inability to meet obligations as they come due without incurring unacceptable losses. The Company is exposed to three different types of liquidity risk:

- Balance sheet liquidity, the need to finance working capital requirements;
- Transactional liquidity, the risk that directly arises from front office operations, and consists of the financing of collateral for clearing and settlement; and
- Market liquidity, the risk that a position cannot easily be unwound or offset at short notice without significantly influencing the market price and incurring a significant loss.

The Chief Financial Officer is responsible for the Company's liquidity management including the establishment and maintenance of systems and controls over the recording and disbursement of funds in accordance with Board approved bank mandates and the segregation of duties between the movement of funds and the recording thereof.

Notes to the financial statements
at 31 December 2018

22. Financial risk management policies and objectives (continued)
Liquidity risk (continued)

The following table summarises the maturity profile of the Company's financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted payments.

Year Ended 31 December 2018	*On demand £000*	*Less than 3 months £000*	*3 to 12 months £000*	*1 to 5 years £000*	*Total £000*
Non-derivative Financial Liabilities					
Interest bearing loans & borrowings	-	-	-	3,100	3,100
Trade and other creditors	2,342	15,130	17,678	2	35,152
	2,342	15,130	17,678	3,102	38,252
Derivative Financial Liabilities					
Foreign exchange forward contracts	-	15	11	-	26
Total	2,342	15,145	17,689	3,102	38,278

Year Ended 31 December 2017	*On demand £000*	*Less than 3 months £000*	*3 to 12 months £000*	*1 to 5 years £000*	*Total £000*
Non-derivative Financial Liabilities					
Interest bearing loans & borrowings	-	-	3,100	-	3,100
Trade and other creditors	2,950	12,443	4,959	-	20,352
	2,950	12,443	8,059	-	23,452
Derivative Financial Liabilities					
Foreign exchange forward contracts	-	6	7	-	13
Total	2,950	12,449	8,066	-	23,465

Operational Liquidity

With respect to balance sheet liquidity; non-trading transactions do not generate significant liquidity risk exposures and are managed through regular cash flow forecasts. In order to maximise its liquidity position, the Company actively works to minimise the aged debtors which are formally monitored through the Credit Control Committee and reduce debtor days.

Notes to the financial statements

at 31 December 2018

22. Financial risk management policies and objectives (continued)

Liquidity risk (continued)

Transactional Liquidity

The most significant element of funding liquidity risk arises out of the requirement to potentially finance failed trades and margin calls however this risk is borne by Tradition London Clearing Limited (TLC).

TLC uses the services of a number of clearers who provide secured overdraft facilities without a formalised limit. The use of multiple clearers provides significantly more credit and constitutes efficient risk mitigation against the risk of one clearer withdrawing its credit lines or failing. As the business includes matched principal transactions, failed trades are usually backed by collateral (cash or securities) which are pledged to the custodian to support the overdraft facility. A daily track is kept to monitor the surplus/deficit in the VaR value of collateral against clearer funding.

The Company operates within a liquidity framework, approved by the Board that covers transactional liquidity policy and a methodology.

Market Liquidity

As an inter-dealer broker, the Company does not carry proprietary positions and the impact of market liquidity is therefore not considered material from a liquidity risk exposure perspective, except in the event of a counterparty failure which is covered as part of credit risk.

Pillar 3 of Basel II is related to market discipline and aims to make firms more transparent by requiring them to publish specific, prescribed details of their risks, capital and risk management under the Basel II framework. The Company's qualitative and quantitative pillar 3 disclosures are published on its website, www.tradition.com.

Legal and reputational risk

From time to time the Company may be engaged in litigation in relation to a variety of matters, and it is required to provide information to regulators and other government agencies as part of informal and formal enquiries or market reviews. The Company's reputation may also be damaged by any involvement or the involvement of any of its employees or former employees in any regulatory investigation and by any allegations or findings, even where the associated fine or penalty is not material.

Conduct risk

The FCA has outlined its approach to managing conduct risk. Conduct risk relates to the risk that detriment is caused to the Company, its customers, its counterparties or the market, as a result of inappropriate execution of business activities. The Company takes a holistic approach to assessing conduct risks in order to ensure that these are being managed in accordance with the FCA's strategic objectives of protecting clients, ensuring markets function effectively and promoting competition. The Company will assess key risks across the business, identifying key controls and ensuring that the Board is receiving the right information to enable it to challenge effectively the management of such risks by the business.

23. Composite guarantee

The Company shares an external bank overdraft arrangement with other Tradition UK group entities.

24. Events after Balance Sheet Date

Post balance sheet close the Company removed the restriction on authorised share capital following a written resolution passed by the directors on 12th February 2019. The Company subsequently issued a further 6,250,000 ordinary shares of £1 each to Tradition Service Holding SA in exchange for a reduction in an intra-group loan payable to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £21,050k to £27,300k.

In addition to the capital injection, Tradition Service Holding SA also injected cash of £2m before the end of February 2019.

Notes to the financial statements

at 31 December 2018

25. Transition disclosures – impact of application of accounting standards

The Company applied IFRS 9 retrospectively at 1 January 2018 but elected not to restate the comparative figures of the previous year, which are presented in accordance with IAS 39. The following table sets out the impact of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECL's.

	IAS 39 Measurement		*Reclassification*	*ECL*	*IFRS 9 Measurement*	
	Category	*Amount*			*Category*	*Amount*
		£000	*£000*	*£000*		*£000*
Trade Debtors	L&R[1]	10,738	-	-	AC[2]	10,738
Cash at bank and in hand	L&R	9,849	-	-	AC	9,849
Other receivables	L&R	1,146	-	-	AC	1,146
Investments – non current	L&R	92	-	-	AC	92
Loan receivable from group undertaking	L&R	3,100	-	-	AC	3,100
Amounts due from group undertakings	L&R	21,092	-	-	AC	21,092
	L&R	46,017	-	-	AC	46,017
FX Forwards	FVTPL[3]	73	-	-	FVTPL	73
Investments – non current	FVTPL	-	21	-	FVTPL	21
	FVTPL	73	21	-	FVTPL	94
Investments – non current	AFS[4]	21	(21)	-	N/A	-
Total Financial Assets		**46,111**	-	-		**46,111**
Trade creditors	AC	208	-	-	AC	208
Amounts due to group undertakings	AC	6,110	-	-	AC	6,110
Sub-ordinated Loan due to group undertakings	AC	3,100	-	-	AC	3,100
	AC	9,418	-	-	AC	9,418
FX Forwards	FVTPL	13	-	-	FVTPL	13
Total Financial Liabilities		**9,431**	-	-		**9,431**

[1] L&R: Loans & Receivables

[2] AC: Amortised Cost

[3] FVTPL: Fair Value through Profit & Loss

[4] AFS: Available for Sale

Notes to the financial statements

at 31 December 2018

25. Transition disclosures – impact of application of accounting standards (continued)

The impact of the transition to IFRS 9 on reserves and retained earnings is as follows:

	Other Reserves	*Retained Earnings*
	£000	*£000*
Closing balance under (IAS 39) – December 2017	17	2,570
Reclassification of investment securities from available-for-sale to FVTPL	(17)	17
Opening balance under IFRS 9 – 1 January 2018	-	2,587

26. Country by Country Reporting

HM Treasury has adopted the requirements set out under the Capital Requirements Directive IV (CRD IV) and subsequently issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014.

The legislation requires that Tradition London Group publish certain additional information to that already contained within this Annual Report, on a consolidated basis.

For Regulatory Consolidation, the following tables outline the entities that form part of the Tradition (UK) Limited Consolidated Group for each of 2018 and 2017.

Entity	Tradition (UK) Limited	Tradition Government Bond Brokers and Derivatives Brokers Proprietary Ltd	**Total As at Dec 2018**
Nature of Activities	Inter-Dealer Broker	Inter-Dealer Broker	Inter-Dealer Broker
Geographical Location	UK	South Africa	Consolidated
	£'000's	£'000's	£'000's
Turnover	99,750	7,030	106,780
Employees	213	23	236
Profit before Tax	112	1,878	1,990
Tax Received/(Paid)	(441)	(546)	(987)

Notes to the financial statements

at 31 December 2018

26. Country by Country Reporting (continued)

Entity	Tradition (UK) Limited	Tradition Government Bond Brokers and Derivatives Brokers Proprietary Ltd	Total As at Dec 2017
Nature of Activities	Inter-Dealer Broker	Inter-Dealer Broker	Inter-Dealer Broker
Geographical Location	UK	South Africa	Consolidated
	£'000's	£'000's	£'000's
Turnover	83,756	8,097	91,853
Employees	199	25	224
Profit before Tax	1,795	2,345	4,140
Tax Received/(Paid)	11	(597)	(586)

Notes:

1. The UK legal entities listed above are regulated by the Financial Conduct Authority (FCA) and subject to the requirement of CRD IV Article 89.
2. Tradition Government Bond Brokers and Derivatives Ltd is a subsidiary of Tradition (UK) Ltd based in South Africa and forms part of the Tradition (UK) Ltd consolidated sub group for FCA reporting purposes and has therefore been included in this reporting.
3. Tax paid represents actual corporation tax payments physically paid to local tax authorities by each entity during the financial year, and in the UK, is shown after any reallocations under the Group Payment Arrangement. Corporation tax paid in any given year does not generally relate to the profits earned in the same 12 month period, as tax on profits is paid across multiple years, and taxable profits are calculated based on tax legislation and can differ from accounting profits.
4. There were no public subsidies received in any Geographical Location in either year.