

# Tradition London Clearing Limited

## Strategic Report, Directors' Report and Statutory Financial Statements

31 December 2017

Registered No: 3633863



## Contents

	PAGES
General information	1
Strategic Report	2-3
Directors' Report	4-5
Statement of directors' responsibilities in respect of the financial statements	6
Independent auditors' report to the members of Tradition London Clearing Limited	7-9
Statement of Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Equity	12
Notes to the financial statements	13-26

## General Information

<b>Directors</b>	C Bienstock P Brault (Chairperson) F Brisebois T DeSaintOuen W Wostyn
<b>Secretary</b>	S Green
<b>Registered Office and Principal Place of Business</b>	Beaufort House 15 St Botolph Street London EC3A 7QX
<b>Auditors</b>	Ernst & Young LLP 25 Churchill Place London E14 5EY
<b>Solicitors</b>	Mayer Brown International LLP 201 Bishopsgate London EC2M 3AF
<b>Bankers</b>	NatWest 120 - 122 Fenchurch Street London EC3M 5AN

## Strategic Report

The directors present their Strategic Report for the year ended 31 December 2017.

### Results and dividends

Tradition London Clearing Limited (the “Company”) recognised a profit for the year after taxation of £44k (2016: loss of £97k) as shown in the Statement of Comprehensive Income on page 10. The directors do not recommend paying a final dividend (2016: £nil).

### Principal activities and review of the business

The Company’s principal activity is the provision of settlement services to the Compagnie Financière Tradition SA group companies.

The Company for the period of the accounts was authorised and regulated by the Financial Conduct Authority. The Company has key regulatory indicators including regulatory capital, which is monitored on an on-going basis. The Company’s other primary Key Performance Indicators relate to Settlement Performance and Monitoring.

During the year turnover decreased from £3,344k to £3,227k, a decrease of 3% and operating profit increased from a loss of £134k in 2016 to a profit of £10k in 2017, resulting in a post-tax profit for the year of £44k (2016: loss of £97k). The Trade Debtor and Trade Creditor balances at year end represent trades in settlement over year end and are a normal part of provision of settlement services undertaken by the Company. Shareholders’ funds increased from £5,097k to £5,141k after applying the profit after tax for the year.

During 2017 an error in the Value Added Tax (VAT) treatment of intercompany charges was self-identified. As such, a Voluntary Declaration has been undertaken by the Company for the four years ending December 2017. The total output tax identified as underpaid was £48k (£13k relating to 2017 and £35k relating to the previous years).

### Principal risks and uncertainties

On the 3rd January 2018 the Markets in Financial Instruments Directive (MiFID II) was rolled out across all member states in the European Union.

MiFID II introduces a range of financial reforms to enhance transparency, dramatically increase reporting requirements, create new regulated Trading Venues and offer greater protection for clients and is the largest regulatory change to hit UK financial services entities in the last 25 years.

A number of workstreams were set up within Tradition London Group to ensure readiness for the January deadline. Early indications are that the MiFID II project was successful and whilst there is still some work to be done on further enhancements we have not encountered any significant issues or impact to market volumes.

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 through 2019. As significant uncertainty still exists around what Brexit will actually mean for the UK financial market and the company, this has been recorded on the risk register. The Tradition London Board has also resolved to form a Brexit Committee to consider and debate the issues.

## Strategic Report

### Principal risks and uncertainties (continued)

The other main risks facing the business that arise out of its clearing activities are operational risk (including settlement risk), credit risk and liquidity risk (see note 18: Financial risk management policies and objectives).

By order of the board



T DeSaintOuen

Director

18 April 2018

## Directors' Report

Registered No: 3633863

The directors present their Report for the year ended 31 December 2017.

### Directors and their interests

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

C Bienstock  
P Brault (Chairperson)  
F Brisebois  
T DeSaintOuen  
W Wostyn

None of the directors had any beneficial interest in the share capital of the Company at any time during the year.

### Directors' liability

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 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.

### 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/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Future developments

The Company will continue to provide settlement services for matched principal transactions carried out by the subsidiaries of Compagnie Financière Tradition SA. Its priority is to deliver solutions to meet business needs and to continue to maintain the level of controls applied to this activity.

### Subsequent Events

Post year end, the Company increased the authorised share capital to 28,500,000 ordinary shares of £1 each following a written resolution passed by the directors on 5<sup>th</sup> April 2018. The Company subsequently issued 23,350,000 ordinary shares of £1 each to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £5,150k to £28,500k.

## Directors' Report

### 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



T DeSaintOuen

Director

18 April 2018

## 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 London Clearing Limited**

### **Opinion**

We have audited the financial statements of Tradition London Clearing Limited ("The Company") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 22, 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 2017 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.

### **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.

### **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 London Clearing 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.

### **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.

# Independent auditors' report

to the members of Tradition London Clearing Limited

## 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.

*Ernst & Young LLP*

*Maurice McCormick (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
19 April 2018*

## Statement of Comprehensive Income

for the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>£000</i>	<i>Restated</i> <i>2016</i> <i>£000</i>
<b>Turnover</b>	3	3,227	3,344
Administrative expenses		(3,217)	(3,478)
<b>Operating profit / (loss)</b>	4	10	(134)
Interest receivable	5	48	14
Interest payable	6	(4)	(1)
<b>Profit / (loss) on ordinary activities before taxation</b>		54	(121)
Tax on profit / (loss) on ordinary activities	9	(10)	24
<b>Profit / (Loss) on ordinary activities after taxation</b>		44	(97)

The notes on pages 13 - 26 form part of these financial statements.

Prior Year restatement of Administrative Expenses and Tax relates to the recognition of the 2016 VAT expense as part of the Voluntary Declaration. See note 22: Restatement of prior year balances.

## Balance Sheet

as at 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>£000</i>	<i>Restated</i> <i>2016</i> <i>£000</i>
<b>Fixed assets</b>			
Tangible fixed assets	10	1	8
<b>Current assets</b>			
Deferred tax	14	4	10
Corporation tax		-	22
Debtors	11	382,925	632,816
Cash at bank and in hand	12	9,409	11,306
		<u>392,338</u>	<u>644,154</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	13	(387,194)	(639,065)
Corporation tax		(4)	-
		<u>(387,198)</u>	<u>(639,065)</u>
<b>Net current assets</b>		<u>5,140</u>	<u>5,089</u>
<b>Net assets</b>		<u>5,141</u>	<u>5,097</u>
<b>Capital and reserves</b>			
Called up share capital	15	5,150	5,150
Profit and loss account		(9)	(53)
<b>Shareholders' funds</b>		<u>5,141</u>	<u>5,097</u>

Prior Year restatement of Current Assets: Deferred Tax, Current Liabilities: Creditors and Profit and loss account, relates to the recognition of the prior year VAT payable component as part of the Voluntary Declaration. See note 22: Restatement of prior year balances.

The notes on pages 13 - 26 form part of these financial statements.

The financial statements were approved by the board of directors on 18 April 2018 and were signed on its behalf by:



T DeSaintOuen  
Director

## Statement of Changes in Equity

as at 31 December 2017

	<i>Share Capital £000</i>	<i>Restated Retained Earnings £000</i>	<i>Total equity £000</i>
At 1 January 2016 – restated	6,250	(1,056)	5,194
Loss for the year	-	(89)	(89)
Correction for prior period	-	(8)	(8)
Share Capital Reduction	(1,100)	1,100	-
At 31 December 2016 – restated	<u>5,150</u>	<u>(53)</u>	<u>5,097</u>
At 1 January 2017	5,150	(53)	5,097
Profit for the year	-	44	44
At 31 December 2017	<u><u>5,150</u></u>	<u><u>(9)</u></u>	<u><u>5,141</u></u>

Post year end, the Company increased the authorised share capital to 28,500,000 ordinary shares of £1 each following a written resolution passed by the directors on 5<sup>th</sup> April 2018. The Company subsequently issued 23,350,000 ordinary shares of £1 each to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £5,150k to £28,500k. See Note 20: Events after Balance Sheet date.

Correction for prior period of £8k relates to the component of the Company's Voluntary Declaration for Value Added Tax (VAT) for 2016.

Prior Year restatement of opening retained earnings of £21k (from £1,035 to £1,056k) relates to the 2014 – 2015 component of the Company's Voluntary Declaration for VAT.

The Voluntary Declaration relates to a self-identified error in the VAT treatment of intercompany recharges and covers a period of four years. See note 22: Restatement of prior year balances.

The notes on pages 13 – 26 form part of these financial statements.

## Notes to the financial statements

at 31 December 2017

### 1. Authorisation of financial statements

The financial statements of Tradition London Clearing Limited for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 18 April 2018, and the balance sheet was signed on the Board's behalf by T DeSaintOuen. The directors have the power to amend and reissue the financial statements. Tradition London Clearing Limited is a private limited company and is incorporated, registered and domiciled 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

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that have had a material impact on the Company.

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 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Company does not consider significant changes will be required to the classification of and measurement of the financial assets and liabilities that are recorded at reporting date. To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses or profit or loss on de-recognition
- Financial assets FVPL

The accounting for impairment will switch from the incurred loss approach (under IAS 39) to a forward looking expected credit loss (ECL) approach under IFRS 9 for reporting periods commencing 1 January 2018.

IFRS 15, 'Revenue from contracts with customers' outlines the principles an entity must apply to measure and recognise revenue. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. 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. The Company does not expect any changes to revenue recognition with the introduction of IFRS 15.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## Notes to the financial statements

at 31 December 2017

### 2. Accounting policies (continued)

#### 2.3 Basis of preparation

These financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

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;
- e) Impairment of assets; and
- f) Financial instruments

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 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

Turnover is recognised on a trade date basis and comprises settlement and clearance fee income derived from acting as a matched principal counterparty in securities transactions.

#### 2.5 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 year end. Gains and losses on foreign exchange rates are included in the profit or loss before taxation.

#### 2.6 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.

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.



## Notes to the financial statements

at 31 December 2017

### 2. Accounting policies (continued)

#### 2.6 Income taxes (continued)

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.

#### 2.7 Interest income and expenses

Interest income and expenses are recognised on an accruals basis. All interest receivable relates to financial institutions.

#### 2.8 Pensions

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

#### 2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposit and short-term money-market investments with maturities of three months or less from the date of acquisition. Cash equivalents are assets that are readily convertible into cash such as government securities and money market investment funds. The Company considers cash and cash equivalents as defined herein to constitute its liquid resources, unless classified as restricted cash and cash equivalents. Restricted cash balances include obligated cash held with the clearers used by the Company. The restricted cash balances have been disclosed separately in Note 12: Cash and cash equivalents.

#### 2.10 Clients' deposits

The Company holds money on behalf of clients in accordance with the client money rules of the Financial Conduct Authority. Such monies and the corresponding liability to clients are included on the balance sheet (refer to note 12: Cash and cash equivalents).

#### 2.11 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation or amortisation and impairment losses.

Depreciation is provided on the cost of all tangible fixed assets in use during the year at rates calculated to write off the cost of each asset evenly over its expected useful life. The following annual depreciation rates are used:

Computer equipment	–	3 years
Office furniture and equipment	–	5 years

#### 2.12 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 net realisable value and value in use. The value in use is determined by reference to estimated future discounted cash flows.

#### 2.13 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.

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.

## Notes to the financial statements

at 31 December 2017

### 2. Accounting policies (continued)

#### 2.14 Trade and other debtors

Trade debtors 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 for impairment is made through profit or loss 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.

### 3. Turnover and segmental reporting

Turnover represents income earned from continuing operations (net of VAT) in connection with the provision of settlement services.

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 from its registered office as referred to in note 16 to these financial statements.

### 4. Operating profit

This is stated after charging:

	2017 £000	2016 £000
Losses / (Gains) on foreign exchange	17	(33)
Depreciation	7	8
<i>Auditors' remuneration:</i>		
Fees payable to the Company's auditor for the audit of the annual accounts	75	92

### 5. Interest receivable

	2017 £000	2016 £000
Interest receivable on bank deposits	48	14
	<u>48</u>	<u>14</u>

### 6. Interest payable

	2017 £000	2016 £000
Bank interest payable	4	1
	<u>4</u>	<u>1</u>

## Notes to the financial statements

at 31 December 2017

### 7. Directors' remuneration

	2017 £000	2016 £000
Directors' remuneration	248	208
Pension contribution	1	1
	<u>249</u>	<u>209</u>
Remuneration of highest paid director	238	198
Pension contribution	1	1
	<u>239</u>	<u>199</u>

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. 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.

None of the directors of the Company had outstanding loans with the Company as at 31 December 2017 or 31 December 2016.

### 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:

	2017 £000	2016 £000
Wages and salaries	740	806
National insurance contributions	87	92
Other pension, life assurance and staff benefits	19	39
	<u>846</u>	<u>937</u>
Average number of persons employed (including directors):		
	2017 No.	2016 No.
Administration	12	12

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost represents contributions payable by the Company to the plans. The pension cost is £9k (2016: £10k). There are no outstanding pension contributions at the year-end (2016: £nil).

## Notes to the financial statements

at 31 December 2017

### 9. Taxation

	2017 £000	<i>Restated</i> 2016 £000
UK corporation tax charge / (credit) – current year	4	(22)
Deferred tax movement (note 14)	6	(2)
Total tax charge / (credit)	<u>10</u>	<u>(24)</u>
Reconciliation of the total tax charge / (credit)		
	2017 £000	<i>Restated</i> 2016 £000
Profit on ordinary activities before tax	54	(121)
At average rate of corporation tax of 19.25% (2016: 20%)	<u>10</u>	<u>(24)</u>
Total tax charge / (credit) as reported in statement of comprehensive income	<u>10</u>	<u>(24)</u>

Prior Year restatement of Deferred Tax relates to the recognition of the 2016 VAT payable as part of the Voluntary Declaration. See note 22: Restatement of prior year balances.

### 10. Tangible fixed assets

	<i>Office furniture and equipment</i> £000	<i>Computer hardware</i> £000	<i>Total</i> £000
Cost:			
At 1 January 2017	2	72	74
At 31 December 2017	<u>2</u>	<u>72</u>	<u>74</u>
Accumulated depreciation:			
At 1 January 2017	2	64	66
Charge for the year	-	7	7
At 31 December 2017	<u>2</u>	<u>71</u>	<u>73</u>
Net book value:			
At 31 December 2016	<u>-</u>	<u>8</u>	<u>8</u>
At 31 December 2017	<u>-</u>	<u>1</u>	<u>1</u>

## Notes to the financial statements

at 31 December 2017

### 11. Debtors

	2017	<i>Restated</i> 2016
	£000	£000
Trade debtors	382,844	632,785
Other debtors	8	5
Prepayments	50	26
Amounts due from group undertakings	23	-
	<u>382,925</u>	<u>632,816</u>

### 12. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 December:

	2017	2016
	£000	£000
Cash at bank and on hand	9,409	11,298
Client money	-	8
Cash and cash equivalents, including restricted cash.	<u>9,409</u>	<u>11,306</u>
Restricted cash included in the cash and cash equivalents balance	<u>2,700</u>	<u>2,700</u>

The restricted cash balance includes obligated cash held with Société Générale of £1,000k (2016: 1,000k) and Bank of New York Mellon £1,700k (2016: 1,700k).

Client balances are held by the Company in trust on behalf of clients in accordance with the Client Money Rules of the Financial Conduct Authority.

### 13. Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Trade creditors	380,872	626,635
Bank Overdraft	217	5,726
Accruals and other creditors	341	329
Amounts due to group undertakings	5,550	6,211
Other taxes and social security	214	164
	<u>387,194</u>	<u>639,065</u>

Prior Year restatement of Other taxes and social security relates to the recognition of the prior year VAT component payable as part of the Voluntary Declaration. See note 22: Restatement of prior year balances.

## Notes to the financial statements

at 31 December 2017

### 14. Deferred tax asset

	2017	<i>Restated</i> 2016
	£000	£000
Depreciation in excess of capital allowances	4	4
Other short term temporary differences	-	6
	<u>4</u>	<u>10</u>
Asset at 1 January - restated	10	8
Charge for the year	(6)	2
Asset at 31 December	<u>4</u>	<u>10</u>

Prior Year Restatement of £6k; £4k of which in the opening asset and £2k in the 2016 charge for the year (from £nil to £2k) relates to the recognition of a deferred tax asset in relation to the prior year components of the Voluntary Declaration for VAT payable. This deferred tax asset was recognised at 19.25% and unwound in 2017. See Note 22: Restatement of prior year balances.

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% (2016: 18.37%) representing the rate at which the deferred tax balances are expected to unwind.

### 15. Called up share capital

	2017	2016
	£000	£000
<i>Authorised:</i>		
10,000,000 ordinary shares of £1 each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
<i>Issued and fully paid:</i>		
5,150,000 ordinary shares of £1 each (2016: 5,150,000 ordinary shares of £1 each)	5,150	5,150
	<u>5,150</u>	<u>5,150</u>

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

Post balance sheet close the Company increased the authorised share capital to 28,500,000 ordinary shares of £1 each following a written resolution passed by the directors on 5<sup>th</sup> April 2018. The Company subsequently issued 23,350,000 ordinary shares of £1 each to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £5,150k to £28,500k.

### 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. 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 financial statements, copies of which are publicly available. The Company's ultimate parent company and controlling party is Viel & Compagnie Finance SE, which is incorporated in France. Copies of its group financial statements, which include the Company, are publicly available.

## Notes to the financial statements

at 31 December 2017

### 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:

<i>Related party</i>	<i>Amounts owed by related party £000</i>	<i>Amounts owed to related party £000</i>
Joint ventures		
2017	-	-
2016	-	-
Shareholder and associated companies		
2017	23	5,550
2016	-	6,211

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 subsidiaries of that company.

#### *Terms & Conditions*

Outstanding balances with related parties are unsecured, interest free and cash settled.

The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the ended 31 December 2017, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2016: £nil).

### 18. Financial risk management policies and objectives

The Company is primarily exposed to the following risks:

- Operational Risk;
- Credit Risk;
- Market Risk;
- Interest Rate Risk;
- Liquidity 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. 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 three kinds of credit risks; credit default risk, settlement risk 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 and cleared broking 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.

## Notes to the financial statements

at 31 December 2017

### 18. Financial risk management policies and objectives (continued)

#### Credit risk (continued)

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 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 Total Assets as at balance sheet date.

#### Market Risk

##### Foreign Currency 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. An analysis has been 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.

The table below provided the analysis for current year only. The extent to which the Company was exposed to currency risk at 31 December 2016 on its non-trading monetary assets and liabilities, and forecast cash flows was not material.

	<i>% Movement in Currency Rates</i>	<i>Effect on Net Profit £000</i>	<i>Effect on Equity £000</i>
<b>2017</b>			
<b>Currency</b>			
EUR	5%	2	2
USD	5%	(2)	(2)
EUR	(5%)	(3)	(3)
USD	(5%)	3	3

#### 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 rate bearing assets and liabilities exist, they are typically of short maturity (less than 3 months) and consequently this risk is marginal. Moreover, the bank pooling facility in place for the Tradition UK 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.



## Notes to the financial statements

at 31 December 2017

### 18. Financial risk management policies and objectives (continued)

#### 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.

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments. Prior Year restatement relates to the recognition of the prior year VAT component as part of the Voluntary Declaration. See note 22: Restatement of prior year balances.

<i>Year Ended 31 December 2017</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Non-derivative Financial Liabilities</b>				
Interest bearing loans & borrowings	217	-	-	217
Trade and other creditors	386,542	367	72	386,981
<b>Total</b>	<b>386,759</b>	<b>367</b>	<b>72</b>	<b>387,198</b>

<i>Year Ended 31 December 2016 (restated)</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Non-derivative Financial Liabilities</b>				
Interest bearing loans & borrowings	5,726	-	-	5,726
Trade and other creditors	632,673	315	351	633,339
<b>Total</b>	<b>638,399</b>	<b>315</b>	<b>351</b>	<b>639,065</b>

#### *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. Operational cash is managed on a pooled basis across the Tradition UK group. 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.

#### *Transactional Liquidity*

The most significant element of funding liquidity risk arises out of the requirement to potentially finance failed trades and margin calls.

## Notes to the financial statements

at 31 December 2017

### 18. Financial risk management policies and objectives

#### Liquidity risk (continued)

The Company 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](http://www.tradition.com).

### 19. 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 Tradition Service Holding S.A.

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 subordinated debt or a capital injection obtained from its immediate parent company, Tradition Service Holding S.A.

### 20. Events after Balance Sheet Date

Post balance sheet close the Company increased the authorised share capital to 28,500,000 ordinary shares of £1 each following a written resolution passed by the directors on 5<sup>th</sup> April 2018. The Company subsequently issued 23,350,000 ordinary shares of £1 each to Tradition Service Holding SA. The capital injection has increased the share capital of the Company from £5,150k to £28,500k.

## Notes to the financial statements

at 31 December 2017

### 21. 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

Entity	Tradition London Clearing Ltd 2017	Tradition London Clearing Ltd 2016
Nature of Activities	Inter-Dealer Broker	Inter-Dealer Broker
Geographic Location	UK	UK
	£'000's	£'000's
Turnover	3,227	3,344
Employees	12	12
Profit / (Loss) before Tax	54	(121)
Tax Paid	0	0

Notes:

1. Tradition London Clearing Ltd is regulated by the Financial Conduct Authority (FCA) and subject to the requirement of CRD IV Article 89.
2. Tax Paid represents the amounts physically paid, after reallocations under the Group payment arrangement, to HMRC. For 2016 the company has surrendered its tax loss to other Group companies and received the tax value of these losses from the claimant companies.
3. There were no public subsidies received in either 2017 or 2016.

## Notes to the financial statements

at 31 December 2017

### 22. Restatement of prior year balances

During 2017 an error in the Value Added Tax (VAT) treatment of intercompany charges was self-identified. As such, a Voluntary Declaration has been undertaken by the Company for the four years ending December 2017. The total output tax identified as underpaid was £48k (£13k relating to 2017 and £35k relating to the previous years).

The prior year in these financial statements includes the following restatements;

- Recognition of a VAT creditor and VAT expense in relation to the 2016 component of the Voluntary Declaration. An increase to Creditors: Other taxation and social security of £10k, and increase in Administrative Expenses of £10k.
- Recognition of the Deferred Tax temporary difference on the 2016 VAT expense on which corporation tax relief will be taken in in 2017. An increase to Deferred Tax by £2k and decrease tax on profit on ordinary activities by £2k.
- Recognition of a VAT creditor and Retained Earnings in relation to the 2014-2015 component of the Voluntary Declaration. An increase to Creditors: Other taxation and social security of £25k, and a decrease in opening Retained Earnings of £25k.
- Recognition of the Deferred Tax temporary timing difference on the 2014-2015 VAT expense on which corporation tax relief will be taken in in 2017. An increase to Deferred Tax of £4k and an increase in opening Retained Earnings of £4k.

<i>Statement</i>	<i>Classification</i>	<i>2016 Signed Financials</i>	<i>PY Restatement</i>	<i>2016 Restated Balance</i>
Statement of Financial Position	Current Assets: Deferred Tax	4	6	10
Statement of Financial Position	Current Liabilities: Creditors	(639,030)	(35)	(639,065)
Statement of Financial Position	Profit & Loss Account	24	29	53
Statement of Comprehensive Income	Administrative Expenses	3,468	10	3,478
Statement of Comprehensive Income	Tax on profit on ordinary activities	(22)	(2)	(24)
Statement of Comprehensive Income	Profit on ordinary activities after tax	89	8	97
Statement of Changes in Equity	Retained Earnings – 1 January 2016	(5,215)	21	(5,194)
Statement of Changes in Equity	Profit for the year – 2016	89	8	97