Forex Capital Markets Limited

Annual Report and Financial Statements

For the year ended 31 December 2018

Registered number: 04072877

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## COMPANY INFORMATION

**Directors**
Brendan Callan
Juan Cafe
David King*
Lorenzo Naldini*
Edwin Philip Manning*

* Non-executive director

**Company Secretary**
Idowu Akanbi

**Finance Officer**
Maryke Faulkner

**Compliance Officer**
Michael Grant

**Registered Office**
Fourth Floor
20 Gresham Street
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EC2V 7JE

**Auditors**
**Deloitte LLP**
Statutory Auditor
Hill House
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London
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## STRATEGIC REPORT

The directors present their annual report and the audited financial statements of Forex Capital Markets Limited ("the Company") for the year ended 31 December 2018.

### General information

The Company is a wholly owned subsidiary of Forex Trading, LLC ("FXT"), its immediate parent undertaking. FXT is wholly owned by FXCM Group, LLC, a limited liability corporation incorporated in Delaware, in the United States of America. The Company is a member of the FXCM Group of Companies, being FXCM Group, LLC and its subsidiaries ("FXCM Group"). FXCM Group is owned by Global Brokerage Holdings, LLC ("Holdings") and LUK-FX Holdings, LLC ("Leucadia") (50.1% and 49.9%, respectively). In May 2018 Leucadia changed their name to Jefferies Financial Group Inc. ("Jefferies"). The ultimate parent of Holdings is Global Brokerage, Inc. ("Inc.").

The Company is a United Kingdom ("UK") Financial Conduct Authority ("FCA") regulated full-scope investment firm.

### Principal activities

The principal activities of the Company in the year under review were those of providing online foreign exchange ("FX"), contract for differences ("CFDs") trading and related services to retail and professional clients globally.

The profit or loss for the Company is dependent on the trading volume of its clients.

### Business review

The Company offers online FX and CFD trading to its retail and professional clients utilising the online trading platform of affiliated companies. The Company offsets all of its FX and the majority of its CFD trades with liquidity providers and affiliate entities. In this capacity, the Company is acting as a referring broker to these entities and is the principal counterparty to the client transaction.

The key performance indicators are as follows:

| | 2018 | 2017 | Change |
|---|---|---|---|
| | $ | $ | % |
| Turnover | 58,803,120 | 77,998,469 | (24.6) |
| (Loss)/profit on ordinary activities before taxation | (4,302,165) | 1,825,324 | (335.7) |
| Loss for the year | (5,044,222) | (521,484) | (867.3) |
| Client cash held | 223,987,515 | 246,461,536 | (9.1) |
| Retail trade volume ($ billions) | 1,104 | 1,672 | (34.0) |
| Equity shareholder's funds | 77,161,582 | 87,185,238 | (11.5) |
| Loss over net assets | (6.5 %) | (0.6 %) | (5.9 ) |
| Capital resources | 77,095,021 | 84,791,768 | (9.1) |
| Capital requirement | 21,329,480 | 22,085,344 | (3.4) |

# STRATEGIC REPORT (CONTINUED)

## Business review (continued)

In 2018, the Company's turnover decreased by 24.6%, year on year, to $58.8 million. Such a movement was directly correlated to volume which decreased in the same period. A decrease in trading volumes was evident across the entire FX and CFD trading industry; driven mainly by decreased currency volatility in 2018 compared with the prior year, coupled with the impact of the product intervention measures on CFDs introduced by the European Securities and Markets Authority ("ESMA"), effective from 1 August 2018. More on the influence of volatility on the Company's trading activity is described below.

Loss on ordinary activities before taxation was $4.3 million (2017: $1.8 million profit). This was largely due to the lower trading volumes noted above. Client cash held reduced 9.1% to $224.0 million in 2018, from $246.5 million in 2017, again indicative of the lower trading volumes experienced during the period. Capital resources decreased by 9.1%, year on year, from $84.8 million in the previous year to $77.1 million in 2018.

The Company receives compensation through a mark-up in the spread or trading commission. The Company also earns other forms of revenue such as fees from white label arrangements with third parties to provide platform, back office and trade execution services, FX market prices and various ancillary FX and CFD related services.

The Company's revenue and profitability rely on high levels of volatility, which in the FX markets is largely contingent upon the expectation of how much interest rates will change in the future. Low volatility is consistently a threat and a very real possibility in the second half of 2019. Brexit, European elections, and the US-China trade talks may temporarily give rise to higher volatility, but stagnant G7 interest rate expectations will dampen hopes for lasting volatility.

During 2018, volatility was low as central banks maintained clear and stable interest rate policies. FX volatility in the year ended 31 December 2018 decreased when compared to the previous year-end. The daily JP Morgan Global FX Volatility Index was down 9% on average in 2018 compared with 2017 (2017: 20% down versus 2016).

The directors consider it important to control administrative expenditure at all times and as a result, are continuously monitoring the cost structure of the Company, with particular emphasis in respect of overheads. Administrative expenses fell by $28.9 million to $82.1 million in 2018 compared to 2017.

## Risk management

### Capital risk

*Capital management*

The Company's Internal Capital Adequacy Assessment Process ("ICAAP") involves an integrated approach to risk management and capital management, based around assessing the level of, and appetite for, risk in the Company and ensuring the level and quality of capital is appropriate to the risk profile.

## STRATEGIC REPORT (CONTINUED)

### Risk management (continued)

**Capital risk (continued)**

The ICAAP process of risk identification and capital considerations have clear linkages and are consistent with one another within the business planning process. This process is embedded in the Company's operations and are key inputs into decision making.

Senior management involvement in the ICAAP process has included evaluating the impacts of Brexit and ESMA's product intervention measures on the leverage restrictions imposed on retail clients. The Company's business model facilitates the decision making process and is stress tested for robustness.

*Current regulatory framework*
The Company calculates capital resources and requirements on an unconsolidated basis using the Basel III framework, as implemented in the European Union (EU) through the Capital Requirements Directive IV (CRD IV).

In the UK, investment firms and banks are required to meet minimum capital requirements as prescribed by CRD IV. In addition, investment firms and banks must adhere to their individual capital guidance, as determined by the ICAAP and supervisory review and evaluation process (SREP).

In line with CRD IV, UK firms are required to meet a combined buffer requirement, which includes the capital conservation buffer (CCB) and the countercyclical capital buffer (CCyB) and must be met with common equity tier one (CET1) capital.

At 31 December 2018, the Company is holding an institution specific CCyB of 0.22% of RWAs. The institution specific CCyB requirement is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set.

The Company continues to hold capital in excess of all the capital and buffer requirements and applies the standardised approach for its capital calculations.

*Review of the existing rules*
The prudential rules for investment firms are part of the wider EU prudential framework, which mainly applies to banks. The current requirements are set out in Directive 2013/36/EU and Regulation (EU) No 575/2013 on capital requirements for banks and investment firms (also known as "CRD IV/CRR").

*Regulatory framework developments*
The European Commission has published a proposed directive and regulation introducing a new prudential framework for investment firms. The proposed rules are a major change likely to affect investment firm's prudential requirements. The proposals seek to ensure that investment firms are subject to capital, liquidity and other key prudential requirements and supervisory arrangements that are adapted to their business and are more risk sensitive.

## STRATEGIC REPORT (CONTINUED)

### Risk management (continued)

#### Capital risk (continued)

The new regime introduces a three-tiered system for investment firms based on systemic importance, size and interconnectedness. The Company will fall into the non-systemic 'class 2' threshold and will be required to have initial capital of €750,000.

The proposals, before formal adoption, are subject to negotiations between the European Parliament and the Council of the European Union. Once adopted, it was originally envisaged an implementation period would take 18-months. We are expecting it to be implemented from mid to late 2020 however, this is not certain.

*Leverage ratio*
The Company is subject to the Basel III minimum leverage ratio standard, which is set at 3% of Tier 1 capital (Common equity tier 1 plus Additional tier 1 capital) against total exposures. The Company calculates and reports its leverage ratio quarterly to the FCA. At 31 December 2018, the ratio was 31.3%.

*Capital regulatory disclosures*
The composition of the Company's regulatory capital comprises entirely of tier one capital, i.e. equity share capital and reserves.

The table below shows Company's regulatory own funds and capital requirements:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Regulatory Capital** | $ | $ |
| **Tier 1 capital** | **77,095,021** | **84,791,767** |
| Credit and counterparty risk | 4,955,385 | 4,488,759 |
| Operational risk | 15,659,477 | 14,835,230 |
| Market risk | 714,619 | 2,761,355 |
| **Total Pillar 1 requirement** | **21,329,480** | **22,085,344** |
| **Capital surplus** | **55,765,540** | **62,706,423** |
| Common equity Tier 1 ratio | 28.9% | 30.7% |
| Tier 1 ratio | 28.9% | 30.7% |
| Total capital adequacy ratio | 28.9% | 30.7% |
| RWA | 266,618,504 | 276,067,500 |

The capital requirement for market risk exposures is set out in the table below:

| Pillar 1 Market Risk-<br>Capital Requirement | 31 December 2018<br>$ | 31 December 2017<br>$ |
|---|---|---|
| CFDs on Equity Indices, Commodities, Interest Rates and Gold | 269,674 | 2,100,918 |
| Foreign currency mismatch | 444,945 | 660,437 |
| Total Pillar 1 requirement | **714,619** | **2,761,355** |

## STRATEGIC REPORT (CONTINUED)

Other risks faced by the Company can be categorised as follows and are considered in Note 21 and 27.

- Business risk
- Governance risk
- Credit and counterparty risk
- Market risk
- Operational risk
- Regulatory risk
- Liquidity risk
- Country and other concentration risks
- Group risk
- Brexit risk

Approved by the Board and signed on its behalf by:

**B. Callan - Director**
25 April 2019

## DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31 December 2018.

### Results and dividends

The results for the year are shown in the statement of comprehensive (loss)/income on page 14. The loss for the year of $5,044,222 (2017: $521,484 loss) was transferred to retained earnings.

During the year, the directors recommended and approved a dividend payment in the amount of $5 million to the Company's immediate parent undertaking, FXT (2017: $nil). The dividend amount was subsequently paid to FXCM Group, LLC, on behalf of FXT.

### Future developments

The Company will pursue key initiatives to retain and grow its client base in 2019.

The Company's objectives for 2019 are to optimise revenues from current and new business, while strengthening the FXCM brand. To optimise revenues, the Company aims to improve conversion rates of new account applicants and decrease the time it takes between applying for a new account and placing a first trade. The Company is reevaluating how client trade flows are managed, relying less on a small number of metrics and more on technologies which provide a holistic view into client trading patterns.

In 2019, the Company will strengthen its brand by celebrating the 20-year anniversary of the FXCM Group. This is expected to provide positive press coverage and reinforce that the Company is a stable, long-term partner. The introduction of a significant number of new tradeable products and the launch of new trading platforms in 2019 are expected to generate renewed interest from the FX and CFD industry.

### Events after the statement of financial position date

**Dividends paid to FXT**

On 31 January, 2019, the directors recommended and approved a dividend payment in the amount of $6.5 million to the Company's immediate parent undertaking, FXT. The dividend amount was subsequently paid to FXCM Group, LLC, on behalf of FXT on 7 February 2019.

### Financial instruments

The Company's financial instruments at the statement of financial position date comprised cash and cash equivalents, debtors (excluding prepayments), trading derivatives and creditors (excluding tax liabilities and provisions). The Company has various other financial instruments such as client monies and customer liability balances arising from its operations.

### Capital management

The Company's capital management objective is to ensure that it maintains a healthy capital ratio, maximising shareholder value and meeting regulatory standards.

The Company manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to the shareholder, return capital to the shareholder or issue new shares.

## DIRECTORS' REPORT (CONTINUED)

### Capital management (continued)

There were no changes made in the objectives, policies or processes during the years ended 31 December 2018 and 2017, respectively.

The Company's Pillar 3 statement and Country By Country Reporting ("CBCR") can be found at https://www.fxcm.com/uk/legal/general-business-terms/.

The Company's CBCR for the year ended 31 December 2018 can be found in note 10(d) of these financial statements.

### Capital requirements country-by-country reporting

These disclosures are made in order to comply with the provisions of Statutory Instrument 2013 No.3118 Capital Requirements (Country-by-Country Reporting) Regulations 2013, which implements in the UK, the requirements set out in Article 89 of the Capital Requirements Directive (Directive 2013/36/EU). The Company's country by country reporting for the year ended 31 December 2018 is shown in Note 10(d).

### Going concern

Having given due consideration to future developments and projected revenue forecasts of the Company, the directors consider that the Company is a going concern and the financial statements are prepared on that basis. This reflects the reasonable expectation that the Company has adequate resources to ensure that the Company will be able to meet its on-going obligations for at least 12 months from the date of signing the statutory accounts and will have enough capital to meet all of its regulatory requirements.

In determining that the Company is a going concern, the directors considered the impact of the regulatory changes in the UK and EU, more specifically, the product intervention measures on CFDs by ESMA and Brexit. The directors believe that the Company will be able to manage its risks successfully, enabling it to continue to enhance its market position and grow its business.

### Appointment of auditor

Deloitte have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

### 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 or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

## DIRECTORS' REPORT (CONTINUED)

**Directors**
The directors who have held office during the period from 1 January 2018 to the date of this report are as follows:

Brendan Callan
Juan Cafe (appointed 23 January 2018)
David King*
Edwin Manning*
Lorenzo Naldini*

* Non-executive director

None of the directors at year end hold, or have ever held, any beneficial interests in the shares of the Company.

Approved by the Board and signed on its behalf by:

**B. Callan - Director**
25 April 2019

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual 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 and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf by:

**B. Callan - Director**
25 April 2019

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOREX CAPITAL MARKETS LIMITED

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements of Forex Capital Markets Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income or loss;
- the statement of financial position;
- the statement of changes in equity;
- the cash flow statement ; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the strategic and directors' report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOREX CAPITAL MARKETS LIMITED (CONTINUED)

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

We have nothing to report in respect of these matters.

**Responsibilities of directors**
As explained more fully in the directors' responsibilities statement, 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**
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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOREX CAPITAL MARKETS LIMITED (CONTINUED)

**Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013**

In our opinion the information given in note 10(d) to the financial statements for the financial year ended 31 December 2018 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

***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.

Adam Cichocki (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
25 April 2019

## Statement of Comprehensive (Loss)/Income
**For the year ended 31 December 2018**

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **Turnover** | 3 | 58,803,120 | 77,998,469 |
| Administrative expenses | 5 | (82,094,151) | (111,029,070) |
| Other operating income | 4 | 16,771,082 | 33,333,660 |
| **Operating (loss)/profit** | 8 | (6,519,949) | 303,059 |
| Interest receivable and similar income | 6 | 2,227,471 | 1,545,148 |
| Interest payable and similar charges | 7 | (9,687) | (22,883) |
| **(Loss)/profit on ordinary activities before taxation** | | (4,302,165) | 1,825,324 |
| Tax on (loss)/profit on ordinary activities | 10 | (742,057) | (2,346,808) |
| **Loss from ordinary activities after tax for the financial year** | | (5,044,222) | (521,484) |
| Other comprehensive income | | — | — |
| **Total comprehensive loss** | | (5,044,222) | (521,484) |
| **Loss for the year attributable to:** | | | |
| Owners of the parent | | (5,044,222) | (521,484) |

All of the Company's activities during the current year and the preceding year are classed as continuing.

The notes on pages 18 to 49 form an integral part of the financial statements.

## Statement of Financial Position
**As at 31 December 2018**

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | **11** | 727,460 | 624,874 |
| Intangible assets | **12** | — | 583,333 |
| | | 727,460 | 1,208,207 |
| **CURRENT ASSETS** | | | |
| Debtors | **15,16** | 66,774,341 | 46,035,004 |
| Trading derivatives | **19** | 31,751,822 | 46,534,836 |
| Cash and cash equivalents | **17** | 271,053,926 | 296,562,713 |
| | | 369,580,089 | 389,132,553 |
| **CURRENT LIABILITIES** | | | |
| Creditors: amounts falling due within one year | **18** | 282,945,017 | 298,424,984 |
| Trading derivatives | **19** | 9,994,251 | 4,474,215 |
| **NET CURRENT ASSETS** | | 76,640,821 | 86,233,354 |
| Provisions for liabilities | **20** | 206,699 | 256,323 |
| **NET ASSETS** | | 77,161,582 | 87,185,238 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | **23** | 69,891,237 | 69,891,237 |
| Retained earnings | | 7,270,345 | 17,294,001 |
| **EQUITY SHAREHOLDER'S FUNDS** | | 77,161,582 | 87,185,238 |

The notes on pages 18 to 49 form an integral part of the financial statements.

The financial statements and associated notes were approved and authorised for issue by the Board of Directors on 23 April 2019.

For and on behalf of the Board

**B. Callan – Director**
25 April 2019

## Statement of Changes in Equity
**For the year ended 31 December 2018**

| | Note | Share capital $ | Share based payment reserve $ | Retained earnings $ | Total Equity $ |
|---|---|---|---|---|---|
| **At 1 January 2018** | | 69,891,237 | — | 17,294,001 | 87,185,238 |
| Total comprehensive loss for the year | | — | — | (5,044,222) | (5,044,222) |
| **Contributions by and distributions to owners** | | | | | |
| Dividends paid | 13 | — | — | (5,000,000) | (5,000,000) |
| Share based payment credit | 24 | — | — | 20,566 | 20,566 |
| **At 31 December 2018** | | **69,891,237** | **—** | **7,270,345** | **77,161,582** |

| | Note | Share capital $ | Share based payment reserve $ | Retained earnings $ | Total Equity $ |
|---|---|---|---|---|---|
| **At 1 January 2017** | | 69,891,237 | 13,956,581 | 3,778,533 | 87,626,351 |
| Total comprehensive loss for the year | | — | — | (521,484) | (521,484) |
| Share based payment reserve transferred to retained earnings | | — | (14,036,952) | 14,036,952 | — |
| **Contributions by and distributions to owners** | | | | | |
| Share based payment credit | 24 | — | 80,371 | — | 80,371 |
| **At 31 December 2017** | | **69,891,237** | **—** | **17,294,001** | **87,185,238** |

The notes on pages 18 to 49 form an integral part of the financial statements.

## Cash Flow Statement

**For the year ended 31 December 2018**

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before tax | | **(4,302,165)** | **1,825,324** |
| Adjustments for: | | | |
| Depreciation | 11 | 158,382 | 89,362 |
| Amortisation of intangible assets | 12 | 583,333 | 1,166,667 |
| (Gains)/ losses on foreign currency revaluations | | 3,486,445 | (11,397,186) |
| Increase in receivables | | (23,239,872) | (6,981,749) |
| Increase/(decrease) in payables | | 17,204,287 | (17,723,631) |
| Share-based payments | | 20,566 | 80,371 |
| Decrease in customer liabilities | 18 | (32,548,445) | (133,661,002) |
| Decrease in net trading derivatives | 19 | 20,303,050 | 36,320,850 |
| Decrease in provisions | 20 | (49,624) | (3,192,695) |
| **Cash used in operating activities** | | (18,384,043) | (133,473,689) |
| Taxation | | (222,662) | (118,015) |
| **Net cash flow used in operating activities** | | **(18,606,705)** | **(133,591,704)** |
| **Cash flows from investing activities** | | | |
| Purchase of tangible assets | 11 | (260,968) | (632,569) |
| **Net cash flow used in investing activities** | | **(260,968)** | **(632,569)** |
| **Cash flows from financing activities** | | | |
| Interest received | | 1,855,018 | 1,241,917 |
| Interest paid | | (9,687) | (22,883) |
| Dividends paid | 13 | (5,000,000) | — |
| **Net cash flow used in financing activities** | | **(3,154,669)** | **1,219,034** |
| Gains/ (losses) on foreign currency revaluations | | (3,486,445) | 11,397,186 |
| **Net decrease in cash** | | **(25,508,787)** | **(121,608,053)** |
| **Cash and cash equivalents at the start of the year** | | **296,562,713** | **418,170,766** |
| **Cash and cash equivalents at the end of the year** | 17 | **271,053,926** | **296,562,713** |

The notes on pages 18 to 49 form an integral part of the financial statements.

**Notes to the Financial Statements**
**For the year ended 31 December 2018**

## 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

**Statement of compliance**
The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The registered office is 20 Gresham Street, 4th Floor, London, EC2V 7JE.

**Basis of accounting**
The financial statements have been prepared on the going concern basis, under the historical cost convention and fair value model and in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in applying the Company's accounting policies.

**Functional and presentation currency**
The Company's functional and presentation currency is US Dollars ("USD") and the accounts are presented in USD, rounded to the nearest dollar.

The financial information included in the Company's financial statements has been translated into USD using the procedures outlined below:

- monetary assets and liabilities denominated in non-USD currencies were translated into USD at the closing rates of exchange on the relevant statement of financial position date;
- non-USD income and expenditure were translated at the rates of exchange prevailing for the relevant period;
- share capital, share premium and the other reserves were translated at the historic rates prevailing at the date of each transaction; and
- all exchange rates were extracted from the Company's underlying financial records.

**Revenue recognition**
Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding value added tax ("VAT") and other sales taxes or duties.

***Turnover***
Turnover represents:
i) Commission revenue (net of commission/rebates paid): commission revenue is generated through affiliates by acting as a referring broker, although the Company is still a principal on all foreign exchange transactions and excludes VAT. Commission revenue is recognised on a trade date basis; and

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 1. ACCOUNTING POLICIES (CONTINUED)

***Turnover (continued)***

ii) Profit and losses on trading in contracts for difference (net of commissions/rebates paid): all contracts are marked to market and the resulting profit or loss is recognised as incurred. Any profit or loss realised due to hedge transactions are netted against the profit or loss from the original transaction.

**Other operating income**
Revenue comprises mainly of inactivity fees and management fees received from other group companies.

Inactivity fees are recognised based on the trading inactivity on a client account. Clients are charged a dormancy account administrative fee every calendar year if there is no client-initiated activity in the twelve months preceding the charge date.

Management fee income is recognised in respect of services provided between affiliate companies within the Group.

**Interest receivable and similar income**
Interest income is recognised in the statement of comprehensive (loss)/income when earned.

**Foreign currencies**
Transactions in foreign currencies are initially recorded at the rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling at the statement of financial position date. Income and expense items are translated at the rates of exchange prevailing for the relevant period. Non-monetary assets and liabilities denominated in foreign currencies are measured in terms of historical costs using the exchange rate at the date of the initial transaction. All exchange differences are taken to the statement of comprehensive income/(loss) and are shown in administrative expenses.

**Share-based compensation**
The Company recognises compensation expenses for awards of Inc. equity granted by the Company. The Company's stock-based compensation expense is measured at the date of grant, based on the estimated fair value of the award, and recognised over the requisite service period of the award, net of estimated forfeitures. The fair value of Inc.'s non-qualified stock options is estimated using the Black-Scholes option pricing model. The fair value of restricted stock units ("RSUs") is based on the fair market value of Inc.'s Class A common stock on the date of grant, adjusted for the present value of dividends expected to be paid on Inc.'s Class A common stock prior to vesting. See Note 24 for further details.

**Directors' and employees' remuneration**
The Company aims to offer directors and employees a competitive basic salary and employs various incentive schemes which are designed to attract, motivate, retain and fairly remunerate staff by recognising their contribution to the Company whilst ensuring that their interests are fully aligned with those of shareholders and clients. The structure of a director's and an employee's remuneration should promote effective risk management and not encourage any level of risk-taking that exceeds the Company's tolerated and stated risk limits. The Company has formulated a remuneration policy that aims to avoid incentivising staff on a short-term basis, and which promotes the Company's business strategy, objectives, values and long-term interests.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 1. ACCOUNTING POLICIES (CONTINUED)

### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.
Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the statement of financial position date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

### Tangible assets

Tangible assets are stated at cost less depreciation and impairment, if any. Depreciation is provided using the straight-line method to write off each asset over the following estimated useful lives:

| | |
|---|---|
| Furniture, fixtures and fittings | 3 years |
| Leasehold improvements | 7 years |
| Communication and computer equipment | 3 years |

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is assessed as greater than its estimated recoverable amount. The residual values and useful lives of tangible assets are reviewed, and adjusted if appropriate, when there are indicators of change.

### Intangible assets

Intangible assets include a customer list purchased from external parties. The identifiable and directly associated costs of acquiring customers are capitalised and recognised as intangible assets where the Company has control and where it is probable that future economic benefits will flow to the Company.

Capitalised intangible assets are amortised on a systematic basis, using a straight-line method in order to write off each asset over its estimated useful life. The amortisation rate used is:

| | |
|---|---|
| Customer list | 3 years |

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 1. ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (continued)

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is assessed as greater than its estimated recoverable amount. The residual values and useful lives of intangible assets are reviewed, and adjusted if appropriate, when there are indicators of change.

### Financial instruments

***Financial assets and liabilities***

Financial instruments are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price unless the arrangement constitutes a financing transaction which includes transaction costs for financial instruments not subsequently measured at fair value. Subsequent to initial recognition, they are measured as set out below. A financing transaction is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

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

***Derecognition of Financial assets and liabilities***

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

***Derivative financial instruments***

All derivatives are recognised on the statement of financial position at fair value through profit or loss and are classified as trading derivatives. The carrying value of a derivative is re-measured at fair value through profit or loss throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

***Investments***

Investments are shown at cost. If there is objective evidence of impairment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset.

***Debtors***

Debtors are measured at fair value upon initial recognition. At each statement of financial position date debtors are reviewed to determine whether there is an indication of impairment. If such indication exists, the recoverable amount is estimated. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance is subject to management review.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 1. ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

***Equity instruments***
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Cash and cash equivalents***
Cash includes cash at banks and cash held by FX and CFD market makers related to hedging activities. Cash equivalents comprise short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. The Company holds money on behalf of clients in accordance with the Client Money and Asset Rules of the FCA and other regulatory bodies. Cash and cash equivalents also include amounts due from third-party financial institutions for credit card transactions that settle generally within seven business days or less.

Such monies and the corresponding liabilities to the clients are included on the Statement of Financial Position as disclosed in the notes.

### Fair value measurement
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Operating lease commitments
Rent payable under operating leases is charged to the profit or loss account on a straight line basis over the lease term unless either: (a) another systematic basis is representative of the time pattern of the benefit, even if the payments are not on that basis; or (b) the lease payments are structured to increase in line with expected general inflation. The lease term is considered to be the period up to which an operating lease is utilised. Operating lease charges can include dilapidation costs.

### Provisions for liabilities
Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income/(loss) in the period it arises.

### Share capital
Ordinary shares, net of directly attributable issue costs, are classified as equity. Dividends paid on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the shareholder.

### Employee benefits
The Company provides a range of benefits to employees, including bonus arrangements, paid holiday arrangements and contributions to pension plans.

***Short term benefits***
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 1. ACCOUNTING POLICIES (CONTINUED)

### Employee benefits (continued)

***Pension Funding***

The Company contributes to one pension scheme for staff whereby contributions are recognised as an expense as and when they become payable. This is a money purchase scheme. Contributions are made as a percentage of salary and are not subject to variation based on periodical actuarial valuations.

### Critical accounting estimates and judgements

The Company has to make estimates and judgments in its accounting policies that affect the amounts reported for assets and liabilities recognised in the financial statements. The nature of estimates means that actual outcomes could differ from those estimates. In the Directors' opinion, the accounting estimates or judgments that have the most significant impact on the presentation and measurement of items recorded in the financial statements are as follows:

***Corporation tax***

The Company is subject to corporation tax in numerous jurisdictions. The calculation of the Company's current corporation tax charge involves a degree of estimation and judgment with respect to certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. Amounts to be paid/received may ultimately be materially different than the amounts already accounted for and could therefore impact the overall profitability and cash flows of the Company in future years. The Company's current tax provision of $69,890 (2017: $268,672) relates to management's assessment of the amount of net tax payable on open tax positions where the assets/liabilities remain to be agreed with HMRC and the foreign jurisdictions in which the Company operates. The Company has not included a provision for uncertain tax items as management are currently not aware of any.

***Deferred taxes***

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Management consider that it is more likely than not that the losses represented by the deferred tax asset will not be utilised, therefore no deferred tax asset has been recognized in current year (2017: $672,167). Details of deferred tax assets are disclosed in Note 10(c).

## 2. GOING CONCERN

The directors have a reasonable expectation that the Company has adequate resources to ensure that the Company will be able to meet its on-going obligations for at least 12 months from the date of signing the statutory accounts and will have enough capital to meet all of its regulatory requirements.

Thus, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 3. TURNOVER

The Company's turnover comprises a single segment and is sourced worldwide.

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Commission revenue | 15,061,953 | 23,026,587 |
| Profit and losses on trading | 43,741,167 | 54,971,882 |
| | 58,803,120 | 77,998,469 |

## 4. OTHER OPERATING INCOME

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Inactivity fees | 873,576 | 813,580 |
| Management fees - income | 14,653,920 | 31,593,379 |
| Other | 1,243,586 | 926,701 |
| | 16,771,082 | 33,333,660 |

## 5. ADMINISTRATIVE EXPENSES

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Legal, management and professional fees | 59,570,518 | 82,433,866 |
| Staff costs (see below) | 9,855,702 | 9,955,307 |
| Bank charges and processing fees | 3,376,163 | 6,294,665 |
| Communications and technology fees | 2,596,533 | 3,306,786 |
| Bad and doubtful debts | — | 16,321 |
| Regulatory fees | 1,281,200 | 1,770,893 |
| Other administrative expenses | 5,414,035 | 7,251,232 |
| | 82,094,151 | 111,029,070 |

**Staff costs**

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Wages and salaries | 8,115,435 | 8,376,870 |
| Social security costs | 1,620,782 | 1,503,471 |
| Other pension costs | 119,485 | 74,966 |
| | 9,855,702 | 9,955,307 |

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 5. ADMINISTRATIVE EXPENSES (CONTINUED)

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

| | 2018 | 2017 |
|---|---|---|
| Sales, marketing and support | 8 | 13 |
| IT | 3 | 4 |
| Trading | 4 | 4 |
| Management and administration | 27 | 27 |
| | 42 | 48 |

Total pension costs incurred by the Company in 2018 was $119,485 (2017: $74,966).

## 6. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Interest on cash and short-term deposits | 2,019,115 | 1,331,896 |
| Interest received from related entities | 208,356 | 213,252 |
| | 2,227,471 | 1,545,148 |

## 7. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Interest on cash and short-term deposits | 9,687 | 22,883 |
| | 9,687 | 22,883 |

## 8. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after charging:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Depreciation – owned assets | 158,382 | 89,362 |
| Amortisation of intangibles | 583,333 | 1,166,667 |
| Services provided by the Company's auditor | | |
| - Fees paid for audit-related assurance services | 401,644 | 376,935 |
| - Fees paid for other assurance services | 100,429 | 189,780 |
| Foreign exchange differences | 53,570 | 906,574 |
| Lease expense – land and building | 765,578 | 966,713 |

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 9. DIRECTORS' REMUNERATION

| | 2018 | 2017 |
|---|---|---|
| Directors' remuneration | $ | $ |
| Aggregate remuneration for qualifying services | 1,603,516 | 1,316,299 |
| Aggregate emolument of highest paid director | 693,379 | 933,896 |

Of the directors who held office during the year, one was remunerated by affiliates in respect of his services to those companies.

| | 2018 | 2017 |
|---|---|---|
| Number of directors who received shares in respect of qualifying services | 2 | 1 |

Directors' pension cost in the year was $12,679 (2017: $9,217).

## 10. TAXATION

### (a) Analysis of the tax charge

The tax charge on the (loss)/profit on ordinary activities for the year was as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Current tax charge:** | | |
| UK corporation tax at 19% (2017: 19.25%) | — | 126,022 |
| Foreign tax | (52,744) | 146,173 |
| Adjustments in respect of prior years | 122,634 | (3,523) |
| **Total current tax charge** | 69,890 | 268,672 |
| **Deferred tax charge:** | | |
| Origination and reversal of temporary differences | 672,167 | 2,078,136 |
| **Total deferred tax charge** | 672,167 | 2,078,136 |
| **Overall tax charge** | 742,057 | 2,346,808 |

### (b) Factors affecting the tax charge for the year

The tax charge for the year is higher than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%).

The difference is explained below:

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

**10. TAXATION (CONTINUED)**

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| (Loss)/profit before tax | (4,302,165) | 1,825,324 |
| Tax (credit)/charge at blended UK corporation tax rate of 19% (2017: 19.25%) | (817,411) | 351,375 |
| Effects of: | | |
| Prior period adjustment | 122,633 | (78,133) |
| Expenses not deductible for tax purposes | 5,876 | 11,162 |
| Unrecognised deferred tax on losses | 1,389,312 | 2,014,567 |
| Adjustment due to change in tax rate | 84,370 | (8,413) |
| Tax from other jurisdictions | (42,723) | 56,250 |
| **Overall tax charge** | 742,057 | 2,346,808 |

**(c) Deferred taxation**

**Movement on deferred tax is made up of:**

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Provision at start of period | 672,167 | 2,750,303 |
| Deferred tax charge to income statement for the period | (587,797) | (2,086,549) |
| Effect of changes in tax rates | (84,370) | 8,413 |
| Provision at end of period | — | 672,167 |
| **Analysis of the deferred tax balance:** | | |
| Accelerated capital allowances | — | (3,518) |
| Carry forward loss | — | 675,685 |
| Total | — | 672,167 |

A reduction in the UK corporation tax rate from 20% to 19% was effective 1 April 2017 and a reduction from 19% to 17% is to be effective 1 April 2020. Accordingly, based on the expected reversal of our deferred tax assets and liabilities, a 17% rate has been applied to the Company's deferred tax assets in the measurement of the Company's deferred assets/liabilities at 31 December 2018 as this being the expected deferred tax reversal rate.

The deferred tax assets are recognised to the extent the directors believe that the Company will have future profits against which the deferred tax can be recovered. As of 31 December 2018, the Company has a taxable temporary difference in relation to carried forward tax losses of $208,384,942. No deferred tax asset has been recognised in the current period in relation to the carried forward tax losses which are considered recoverable. The deferred tax asset relating to the carried forward tax losses amounting to $35,462,939 has not been recognised as at the statement of financial position date due to uncertainty over future taxable profits and due to a limitation on carry forward loss utilisation by banking entities. The carried forward tax losses are able to be carried forward indefinitely.

Total deferred tax asset of $nil (2017: $672,167 at 17%) is included in Debtors, see note 16.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 10. TAXATION (CONTINUED)

### (d) Country By Country Reporting

| Location | Entity | Description of activities | No. of employees on a FTE basis | Turnover $000's | (Loss)/ Profit before tax $000's | Tax on (Loss)/ Profit $000's | Tax paid/ (refunded) during the year $000's |
|---|---|---|---|---|---|---|---|
| London, England | Forex Capital Markets Limited (FXCM Ltd.) | Foreign Exchange and CFD on-line trading. | 42 | 58,803 | (4,302) | (742) | — |
| Paris, France | FXCM France Registered in France as a branch of FXCM Ltd. | Operates as a sales office, solicits local clients and provides customer service. | 11 | 2,137 | 116 | (57) | 56 |
| Berlin, Germany | FXCM Germany Registered in Germany as a branch of FXCM Ltd. | Operates as a sales office, solicits local clients and provides customer service. | 7 | 579 | (256) | 111 | (59) |
| Milan, Italy | FXCM Italy Registered in Italy as a branch of FXCM Ltd. | Operates as a sales office, solicits local clients and provides customer service. | 5 | 90 | 29 | (1) | — |
| *Athens, Greece | FXCM Greece Registered in Greece as a branch of FXCM Ltd. | Operates as a support office, carrying on exclusively non-regulated activities such as market research and promoting the Company's brand. | 6 | 244 | — | — | — |

*With effect from 1 October, 2018, the Company's branch office in Greece terminated its Tied Agency relationship with Stentor Group SA. Simultaneously, it converted to an unregulated representative office.

No public subsidies were received at any location.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 11. TANGIBLE ASSETS

| | Furniture, fixtures and fittings | Leasehold improvements | Communication and computer equipment | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **COST** | | | | |
| At 1 January 2018 | 97,720 | 495,336 | 620,921 | 1,213,977 |
| Additions | 30,110 | 21,236 | 209,622 | 260,968 |
| At 31 December 2018 | 127,830 | 516,572 | 830,543 | 1,474,945 |
| **ACCUMULATED DEPRECIATION** | | | | |
| At 1 January 2018 | 8,832 | 11,794 | 568,477 | 589,103 |
| Charge for the year | 37,113 | 71,726 | 49,543 | 158,382 |
| At 31 December 2018 | 45,945 | 83,520 | 618,020 | 747,485 |
| **NET BOOK VALUE** | | | | |
| At 31 December 2018 | 81,885 | 433,052 | 212,523 | 727,460 |
| At 31 December 2017 | 88,888 | 483,542 | 52,444 | 624,874 |

## 12. INTANGIBLE ASSETS

| | Customer list |
|---|---|
| | $ |
| **COST** | |
| At 1 January 2018 | 3,500,000 |
| Additions | — |
| At 31 December 2018 | 3,500,000 |
| **AMORTISATION** | |
| At 1 January 2018 | 2,916,667 |
| Charge for the year | 583,333 |
| At 31 December 2018 | 3,500,000 |
| **NET BOOK VALUE** | |
| At 31 December 2018 | — |
| At 31 December 2017 | 583,333 |

The amortisation charge for the year of £583,333 (2017 £1,166,667) has been charged within Administrative expenses in the Statement of comprehensive loss on page 14.

## 13. DIVIDENDS

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Paid during the year | 5,000,000 | — |

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 14. OTHER INVESTMENTS

The value of the investment in Salex Holding SRL was $nil (2017: $nil). The value of the investment was impaired in 2015, due to the limited income being received from the investment. On 6 March, 2018, the Company entered into a definitive agreement to sell its investment in Salex Holding SRL to FinSalex SRL, for a purchase price of one euro. The sale transaction was completed in the second quarter of the year under review.

## 15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Amounts owed by group undertakings | 64,369,543 | 37,703,375 |
| Tax receivable | 195,121 | 178,158 |
| VAT receivable | — | 215,985 |
| Prepayments | 329,148 | 619,610 |
| Other debtors | 490,535 | 735,865 |
| | 65,384,347 | 39,452,993 |

Amounts owed by group undertakings include various inter group recharges, profit sharing, margin for trading activities and are all repayable on demand.

## 16. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Deferred tax assets | — | 672,167 |
| Others debtors | 1,389,994 | 5,909,844 |
| | 1,389,994 | 6,582,011 |

## 17. CASH AND CASH EQUIVALENTS

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Own funds | 47,066,411 | 50,101,177 |
| Client funds | 223,987,515 | 246,461,536 |
| | 271,053,926 | 296,562,713 |

Client funds represents client monies held in segregated client money bank accounts in accordance with the UK's FCA client money and assets ("CASS") rules, separate from the Company's own funds. The client funds included in the Company's statement of financial position is offset by customer liabilities as of both 31 December 2018 and 31 December 2017.

Own funds includes United States Treasury bills balance of $2,299,588 (2017: $2,297,623) held for regulatory liquidity purposes. Both own funds and client funds are short-term cash deposits with an original maturity of less than three months. At times, some of these balances which are held in U.S. bank accounts may exceed federally insured limits. This potentially subjects the Company to concentration of risk. The Company has not experienced losses in such accounts.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

### 18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Amounts owed to group undertakings | 18,915,173 | 2,751,715 |
| Tax payable | 113,971 | 249,780 |
| Other taxation and social security | 276,945 | 257,648 |
| Other creditors | 2,026,249 | 1,003,479 |
| Merchant liabilities | 3,578,517 | 4,618,561 |
| Customer liabilities | 253,129,845 | 285,678,290 |
| Accruals | 4,904,317 | 3,865,511 |
| | 282,945,017 | 298,424,984 |

Amounts owed to group undertakings result from various inter group recharges, profit sharing and margin for trading activities. Customer liabilities above are repayable on demand and do not include unrealised profit/ (loss) on trading derivatives. Other creditors have an original maturity of less than three months.

### 19. TRADING DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives positions held on behalf of clients across various currencies, generate exposure to currency rate movement. To offset this the Company utilises a number of counterparties, including affiliates.

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Trading Derivatives - assets | 31,751,822 | 46,534,836 |
| Trading Derivatives - liabilities | (9,994,251) | (4,474,215) |
| | 21,757,571 | 42,060,621 |

### 20. PROVISIONS FOR LIABILITIES

| | Property related | Other | Total |
|---|---|---|---|
| | $ | $ | $ |
| At 1 January 2018 | 218,105 | 38,218 | 256,323 |
| Additions | — | — | — |
| Utilised | (11,406) | (38,218) | (49,624) |
| At 31 December 2018 | 206,699 | — | 206,699 |

As part of the Company's operating leasing arrangements there is an obligation to repair damages such as wear and tear, which occur during the life of the lease. The Company has provided $206,699 in respect of such costs, which are expected to be utilised at the end of the lease term in 2024.

During the year, the Company utilised a provision in the amount of $38,218 recognised in the prior period in respect of a fine.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 21. FINANCIAL INSTRUMENTS

The Company's financial instruments may be analysed as follows

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Financial assets measured at amortised cost** | | |
| Cash and cash equivalents | 271,053,926 | 296,562,713 |
| Amounts owed by group undertakings | 58,607,928 | 32,150,116 |
| Other debtors | 1,880,529 | 6,645,709 |
| | 331,542,383 | 335,358,538 |
| **Derivative financial assets at fair value through profit or loss** | | |
| Trading derivatives | 31,751,822 | 46,534,836 |
| **Financial assets that are debt instruments measured at amortised cost** | | |
| Amounts owed by group undertakings | 5,761,615 | 5,553,259 |
| **Financial liabilities measured at amortised cost** | | |
| Customer liabilities | 253,129,845 | 285,678,290 |
| Amounts owed to group undertakings | 18,915,173 | 2,751,715 |
| Other creditors | 5,604,766 | 5,622,040 |
| Accruals | 4,904,317 | 3,865,511 |
| | 282,554,101 | 297,917,556 |
| **Derivative financial liabilities at fair value through profit or loss** | | |
| Trading derivatives | 9,994,251 | 4,474,215 |

The Company's financial instruments represent the core assets and liabilities significant to its trading activities. Cash and cash equivalents, amounts owed by group undertakings, customer liabilities and amounts owed to group undertakings have been adjusted by the impact of trading derivatives to reflect the gross position of the Company. Net customer liabilities as at 31 December 2018 amounted to $223,987,515 (2017: $246,461,536). Net cash and cash equivalents as at 31 December 2018 amounted to $271,671,301 (2017: $296,808,460).

Trading derivatives include positions held on behalf of clients and trades with liquidity providers and group undertakings, across various currencies. The fair value at recognition for trading derivatives was $nil and the change in fair value booked to profit or loss for the year was $20,303,050 (2017: $36,320,850).

Interest income received from group undertakings was $208,356 for year ended 31 December 2018 (2017: $213,252).

There are no bad debts or any provision for impairment on other debtors measured at amortised cost.

### Fair value estimation

Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined by reference to quoted market prices at the statement of financial position date.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

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

(1) The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.
(2) When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (for example because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.
(3) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

The financial instruments of the Company are all classified under fair value hierarchy level (1).

Set out below is a comparison by class of the carrying amounts of the financial instruments of the Company with the fair value that can be determined for those financial instruments.

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Net carrying value | Net fair value | Net carrying value | Net fair value |
| | $ | $ | $ | $ |
| **Financial assets measured at amortised cost** | | | | |
| Cash and cash equivalents | 271,053,926 | 271,053,926 | 296,562,713 | 296,562,713 |
| Amounts owed by group undertakings | 58,607,928 | 58,607,928 | 32,150,116 | 32,150,116 |
| Other debtors | 1,880,529 | 1,880,529 | 6,645,709 | 6,645,709 |
| | 331,542,383 | 331,542,383 | 335,358,538 | 335,358,538 |
| **Derivative financial assets at fair value through profit or loss** | | | | |
| Trading derivatives | 31,751,822 | 31,751,822 | 46,534,836 | 46,534,836 |
| **Financial assets that are debt instruments measured at amortised cost** | | | | |
| Amounts owed by group undertakings | 5,761,615 | 5,761,615 | 5,553,259 | 5,553,259 |
| **Financial liabilities measured at amortised cost** | | | | |
| Customer liabilities | 253,129,845 | 253,129,845 | 285,678,290 | 285,678,290 |
| Amounts owed to group undertakings | 18,915,173 | 18,915,173 | 2,751,715 | 2,751,715 |
| Other creditors | 5,604,766 | 5,604,766 | 5,622,040 | 5,622,040 |
| Accruals | 4,904,317 | 4,904,317 | 3,865,511 | 3,865,511 |
| | 282,554,101 | 282,554,101 | 297,917,556 | 297,917,556 |
| **Derivative financial liabilities at fair value through profit or loss** | | | | |
| Derivative financial liabilities at fair value through profit or loss | 9,994,251 | 9,994,251 | 4,474,215 | 4,474,215 |

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 21. FINANCIAL INSTRUMENTS

### Financial risk management

The main risks the Company is exposed to through its financial instruments are credit risk, liquidity risk and market risk.

**Credit risk**
Credit risk is the risk that a borrower or counterparty will fail to meet their financial obligations. The Company has potential credit risk exposure to clients, affiliates and liquidity providers. The Company has a defined risk appetite and management policy for each such counterparty.

The Company's overall approach to credit risk management is outlined in Note 28.

The Company makes use of the three credit rating agencies to ascertain credit quality of exposures. The agencies are specifically, Moody's, Fitch and S&P. The credit assessments of counterparties and their mapping to the credit quality steps ("CQS") may be seen from the table below:

| External Credit Assessment Institution (ECAI's) | | S&P | Moody's | Fitch |
|---|---|---|---|---|
| Mapping to credit quality steps - Long term credit assessment | 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- |
| | 2 | A+ to A- | A1 to A3 | A+ to A- |
| | 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- |
| | 4 | BB+ to BB- | Ba1 to Ba3 | BB+ to BB- |
| | 5 | B+ to B- | B1 to B3 | B+ to B- |
| | 6 | CCC+ and below | Caa1 and below | CCC+ and below |

The Company's financial instrument exposure to credit risk as at 31 December 2018 and 31 December 2017 respectively, may be found below. The Company does not make use of credit derivatives, or other similar instruments to mitigate credit risk exposures and therefore these instruments do not form part of these disclosures.

The Company's exposure to credit risk at the end of the reporting period is represented as the carrying amount. Derivatives are recorded at fair value, whilst the remaining exposures to credit risk are measured at amortised cost.

The Company has no financial assets that are either past due or impaired.

| Financial asset | CQS 1 | CQS 2 | CQS 3 | CQS 4 - 6 | Unrated | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **31 December 2018** | | | | | | |
| Cash and cash equivalents | 2,299,588 | 218,699,918 | 509,926 | 9,229,952 | 40,314,542 | **271,053,926** |
| Amounts owed by group undertakings | — | — | — | — | 58,607,928 | **58,607,928** |
| Other debtors | — | — | — | — | 1,880,529 | **1,880,529** |
| Trading derivatives | — | 198,764 | — | — | 31,553,058 | **31,751,822** |
| Amounts owed by group undertakings | — | — | — | — | 5,761,615 | **5,761,615** |
| **Total exposure** | 2,299,588 | 218,898,682 | 509,926 | 9,229,952 | 138,117,672 | **369,055,820** |

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

### Credit risk (continued)

| Financial asset | CQS 1 | CQS 2 | CQS 3 | CQS 4 - 6 | Unrated | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **31 December 2017** | | | | | | |
| Cash and cash equivalents | 8,081,412 | 182,033,284 | 32,143,442 | — | 74,304,575 | **296,562,713** |
| Amounts owed by group undertakings | — | — | — | — | 32,150,116 | **32,150,116** |
| Other debtors | — | — | — | — | 6,645,709 | **6,645,709** |
| Trading derivatives | — | 1,067,184 | — | — | 45,467,652 | **46,534,836** |
| Amounts owed by group undertakings | — | — | — | — | 5,553,259 | **5,553,259** |
| ***Total exposure*** | 8,081,412 | 183,100,468 | 32,143,442 | — | 164,121,311 | **387,446,633** |

### Market risk

Market risk is defined as the risk that exposures to market price fluctuations inherent in the positions held by the Company could give rise to a material loss given adverse price movements.

The Company's overall approach to market risk management is outlined in Note 28.

*(i) Interest rate risk*

Exposure to interest rate risk arises where there is a maturity discrepancy between financial assets and liabilities attracting either fixed or floating rates of interest.

The Company's financial asset and liability balances are on-demand and subject primarily to floating rates of interest. Because the Company does not have a maturity discrepancy of financial assets to financial liabilities, any increase or decrease in interest rates would have an immaterial impact on the Company.

The Company's financial assets and liabilities attracting interest are primarily in respect of cash and cash equivalents.

*(ii) Foreign currency risk*

Currency mismatch risk arises if obligations (i.e. money obligations) owed in one currency are secured by deposits in a different currency and the rates between these currencies change.

A sensitivity analysis showing the impact of a change in foreign currency exchange rates as at 31 December 2018 and 31 December 2017 on the foreign currency risk exposures in existence is shown in Note 28.

### Liquidity risk

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial instrument liabilities.

The Company's overall approach to liquidity risk management is outlined in Note 28.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

**Liquidity risk (continued)**

**Maturity profile of financial liabilities**

| | On demand | 0-3 months | 3-12 months | > 1 year | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **31 December 2018** | | | | | |
| Customer liabilities | 253,129,845 | — | — | — | **253,129,845** |
| Amounts owed to group undertakings | 18,915,173 | — | — | — | **18,915,173** |
| Other creditors | 5,604,766 | — | — | — | **5,604,766** |
| Accruals | 4,904,317 | — | — | — | **4,904,317** |
| Derivative financial liabilities at fair value through profit or loss | 9,994,251 | — | — | — | **9,994,251** |
| | 292,548,352 | — | — | — | **292,548,352** |

| | On demand | 0-3 months | 3-12 months | > 1 year | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **31 December 2017** | | | | | |
| Customer liabilities | 285,678,290 | — | — | — | **285,678,290** |
| Amounts owed to group undertakings | 2,751,715 | — | — | — | **2,751,715** |
| Other creditors | 5,622,040 | — | — | — | **5,622,040** |
| Accruals | 3,865,511 | | | | **3,865,511** |
| Derivative financial liabilities at fair value through profit or loss | 4,474,215 | — | — | — | **4,474,215** |
| | 302,391,771 | — | — | — | **302,391,771** |

## 22. OPERATING LEASE PAYMENTS DUE

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Amounts due within one year | 388,014 | 671,722 |
| Amounts due within two to five years | 1,906,344 | 1,838,763 |
| Amounts due after five years | 231,578 | 733,070 |

The aggregate rental expense for operating leases for the year ended 31 December 2018 was $765,578 (2017: $966,713).

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 23. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

| Ordinary shares of £1 each | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| At 1 January and 31 December | 69,891,237 | 69,891,237 |

There were no shares issued but not yet fully paid in 2018 and 2017.

## 24. SHARE- BASED COMPENSATION

Inc.'s Amended and Restated 2010 Long-Term Incentive Plan (the "LTIP") permits the grant of various equity-based awards to employees, directors or other service providers of the Company. Under the LTIP, the Company has granted non-qualified stock options and other equity awards, including shares of Inc.'s Class A common stock ("Shares") and Restricted Stock Units ("RSUs"). The Shares issued may consist, in whole or in part, of unissued Shares or treasury Shares.

In arriving at stock-based compensation expense, the Company estimates the number of equity-based awards that will forfeit due to employee turnover. The Company's forfeiture assumption is based primarily on its turn-over historical experience. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognised in the Company's financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to expense recognised in the Company's financial statements. The expense the Company recognises in future periods will be affected by changes in the estimated forfeiture rate and may differ significantly from amounts recognised in the current period.

**Stock Options**

Stock options to purchase Shares are granted to employees ("Employee Stock Options"). The Employee Stock Options have a four-year graded vesting schedule and a contractual term of seven years from the date of grant. Under the terms of the LTIP, Inc. may issue new Shares or treasury Shares upon share option exercise.

During the year ended 31 December 2018, no shares were granted (2017: no shares were granted). Stock options are granted to employees with exercise prices at least equal to the fair market value of a Share on the date the option is granted.

The following table summarises the Company's stock option activity as of 31 December 2018 and changes to the year then ended:

| | Shares | Weighted-Average Exercise Price $ | Weighted-Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding at 1 January 2018 | 15,900 | 142.49 | |
| Forfeited | 3,500 | 44.94 | |
| Outstanding at 31 December 2018 | 12,400 | 56.27 | 1.69 |
| Vested or expected to vest at 31 December 2018 | 12,400 | 56.27 | 1.69 |
| Exercisable at 31 December 2018 | 12,400 | 56.27 | 1.69 |

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 24. SHARE- BASED COMPENSATION (CONTINUED)

### Stock Options (continued)

There were no options granted in the years ended 31 December 2018 and 2017, respectively.

There were no options exercised in the years ended 31 December 2018 and 2017, respectively.

The total grant-date fair value of options vested in the year ended 31 December 2018 was immaterial (2017: $0.2 million).

### Valuation Assumptions

The fair value of each option awarded to employees is estimated on the date of grant using the Black-Scholes option pricing model.

The expected term of 4.75 years is based on the assumption that the options will be exercised halfway between the average vesting date and the contractual term of each option grant. Inc.'s stock has been publicly traded for approximately eight years, however there is a lack of sufficient exercise history for Employee Stock Options during this period, including the most recent two years. Inc. believes that the simplified method is an applicable methodology to estimate the expected term of the options as of the grant date. The risk free interest rate for the Employee Stock Options is based on U.S. Treasury instruments whose terms are consistent with the expected lives of the Employee Stock Options.

Expected volatility is based on a weighing of the historical and implied volatilities of Inc. and for a set of public guideline companies deemed comparable to it. The guideline companies selected operate in a similar industry, pursue similar market opportunities, and are subject to similar risks of Inc. Changes in the subjective assumptions required in the valuation models may significantly affect the estimated value of the Company's Employee Stock Options, the related stock-based compensation expense and, consequently, it's Statement of Comprehensive Income/(Loss). The dividend yield is determined based on Inc.'s expected dividend pay-outs.

Stock-based compensation expense before income taxes included in administrative expense in the statement of comprehensive income/(loss) for the year ended 31 December 2018 was immaterial (2017: immaterial).

As of 31 December 2018 , there were no unvested Employee Stock Options and no related unrecognized compensation cost. As of December 2017, there was an immaterial amount of total unrecognised cost related to non-vested Employee Stock Options expected to be recognised over a weighted-average period of approximately 1 year.

### Other Equity Awards

The LTIP provides for the grant of other stock-based awards ("Other Equity Awards") which may include Shares and other awards that are valued in whole or in part by reference to, or are otherwise based on the fair value of Shares.

### RSUs

During December 2014, the Company granted service-based RSUs to employees. The RSUs vest in equal annual instalments over a four-year period following the date of grant, subject to the employees' continuing employment. RSUs that vest are settled by issuance of one Share for each RSU. If the employee terminates for any reason, any RSUs which have not vested as of the date of termination are forfeited and returned to the Company.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 24. SHARE- BASED COMPENSATION (CONTINUED)

**RSUs (continued)**
Holders of RSUs do not have dividend, voting or any other rights of a shareholder with respect to the Shares underlying the RSUs unless and until the RSUs vest and are settled by the issuance of such Shares. The fair value of RSUs is based on the fair market value of Shares on the date of grant, adjusted for the present value of dividends expected to be paid on Shares prior to vesting. Such value is recognised as an expense over the requisite service period, net of estimated forfeitures.

In the first quarter of 2018, management made the decision to settle the final tranche of RSUs scheduled to vest at the end of the year in cash equal to the fair value of each RSU on the vesting date instead of in Shares. It was determined that the cash settlement represents a modification that changes the classification of the award from equity to liability. As the trading price of the Shares has significantly declined since the date of grant, there was no incremental value conveyed to the holders of the RSUs and no additional compensation cost was recorded over the remaining requisite service period. The amount of cash used to settle the RSUs in December 2018 was not material.

The following table summarises the Company's non-vested RSU activity as of 31 December 2018 and changes for the year then ended:

| | Units | Weighted-Average Grant-Date Fair Value $ | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Non-vested at 1 January 2018 | 499 | 162.50 | 1.00 | — |
| Vested | 499 | 162.50 | | |
| Unvested at 31 December 2018 | — | — | — | — |

Stock-based compensation expense before income taxes for RSUs, which is included in administrative expense in the statement of comprehensive income/(loss) was immaterial for the year ended 31 December 2018 (2017: immaterial).

As of 31 December 2018, there were no unvested RSUs and no related unrecognised compensation cost.

As of December 2017, there was an immaterial amount of total unrecognised cost related to non-vested RSUs expected to be recognised over a weighted-average period of 1 year.

The Company did not grant Shares as Other Equity Awards during the years ended 31 December 2018 and 2017, respectively.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 25. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company received $14,653,920 (2017: $31,593,379) and paid $56,172,823 (2017: $76,966,506) in respect of services provided between affiliate companies in the group.

Interest income received from group undertakings was $208,356 for year ended 31 December 2018 (2017: $213,252).

Turnover with related parties were as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Commission Revenue | 20,628,570 | 32,738,990 |
| Profits on trading CFD contracts | 14,814,847 | 6,253,232 |
| | **35,443,417** | **38,992,222** |

The Company recorded an expense of $355,953 (2017: $387,924) in respect of audit fees allocated from group undertakings.

The total compensation for key management personnel were as follows:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 2,047,926 | 1,930,688 |
| Post employment benefits | 26,771 | 9,063 |

The Company had the following amounts outstanding with group companies at the year end:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Amounts owed by group undertakings | 64,369,543 | 37,703,375 |
| Amounts owed to group undertakings | 18,915,173 | 2,751,715 |
| Trading Derivatives - assets | 1,474 | 2,598,120 |
| Trading Derivatives - liabilities | 8,003,608 | — |

Amounts owed by/to group undertakings include various inter group recharges, profit sharing, margin for trading activities and are all repayable on demand.

The Company had $6,615 outstanding advances to employees as at 31 December 2018 (2017: $5,919).

As of 31 December 2018, Customer liabilities include balances for employees in the amount of $662 (2017: $1,877).

During 2018 the Company recharged $1,530,170 to Global Services LLC as fair expense allocation for shared services between the two companies (2017: Nil).

At 31 December 2018 the Company had receivable an intercompany loan note from FXCM Group LLC, $5,761,615 (2017: $5,553,259) was the amount of principal and accrued interest due. The loan accrues interest at an annual rate of 4%, 360/actual day basis, an open maturity and can be demanded at any time by the Company.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 26. ULTIMATE CONTROLLING PARTY AND PARENT UNDERTAKING

The immediate parent undertaking of the Company is Forex Trading LLC, a limited liability corporation incorporated in Delaware, in the United States of America.

Forex Trading LLC is 100% owned by FXCM Group LLC, which is in turn owned by Global Brokerage Holdings LLC and Leucadia FX Holdings LLC, who control the businesses and affairs of the FXCM Group of companies. All of the aforementioned are limited liability corporations incorporated in Delaware, in the United States of America. Jefferies Financial Group Inc. is the ultimate controlling party of the Company and is incorporated in New York, in the United States of America, its principal executive office is 520 Madison Avenue, New York, NY 1022, in the Unites States of America.

## 27. RISK MANAGEMENT

The Company's risk management framework seeks to ensure that there is an effective process in place to manage risks across the Company. Risk management is integral to all aspects of the Company's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasises careful analysis and management of risk in all business processes.

A number of committees identify and manage risk at the Company. These committees operate together with Risk Management and are mandated by the board. There are two Board Committees comprising the 'Audit Committee' and the 'Nomination and Remuneration Committee'. There are three Management Committees comprising the Executive Committee, Risk Management Committee ("RMC") and Client Money and Asset Committee. The Risk Management Committee is responsible for overseeing the Asset and Liability Committee, Credit Committee, Market Risk Committee, Best Execution Committee and the Financial Crime Committee.

Risk appetite is defined as the amount and type of risk that the Company is willing to take in order to meet its strategic objectives. Risk appetite is assessed against the business's key drivers of success, which form the basis for the risk appetite. Through the risk management framework and its risk policies, the Company has established and communicated its risk appetite.

### Business risk

Business risk represents any risk arising from changes in the business, including the risk that the Company may not be able to carry out its business plan and desired strategy. These risks can be sub-categorised as performance risk and reputational risk, and include:

- Decrease in the number of new and active customers;
- Increase in the general cost of business; and
- Substantial loss of reputation leading to a desertion of clients and monies. This includes the potential effects of any reputational damage suffered by any other affiliate.

The Company places the highest importance on risk management at all levels of the organisation. In order to mitigate this risk, the Company seeks to operate at the highest level of integrity and ethical standards in all of its activities.

### Governance risk

The Company is committed to having corporate governance, risk management and a control framework appropriate to the size of the business and level of risk within the business. The governance structure is

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 27. RISK MANAGEMENT (CONTINUED)

**Governance risk (continued)**
designed to oversee all of the Company's operations. The execution of these promotes overall effective corporate governance.

**Credit and counterparty risk**
Credit risk is the risk that a borrower or counterparty will fail to meet their financial obligations. The Company has exposure to credit risk in dealing with clients and counterparties.

The Company accepts credit risk arising from:

- Balances held with third parties;
- Balances held with affiliated companies
- Credit extended to a limited number of clients that meet specified credit criteria;
- Counterparty risk arising on OTC derivatives; and
- Defaulted client losses.

There are strict controls around these risks.

*Balances held with third parties*
The Company aims to deposit all funds with third parties with credit ratings equivalent to the FCA's credit quality step 3 and above. Diversification is a critical part of risk mitigation; therefore, to protect client money and comply with regulatory rules, the Company manages the risk of default or failure of a third party by limiting the amount of cash at any single third party. Further, balance limits apply to any single third party that does not have credit ratings equivalent to the FCA's credit quality step 3 and above.

Customer funds nominated for segregation are held in segregated accounts.

Credit reviews for all new third party banking and trading relationships are prepared with credit ratings regularly monitored.

*Balances held with affiliated companies*
The Company is the counterparty to each of its clients' trades. In order to offset market risk it may hedge these trades with multiple counterparties - including other FXCM Group affiliates - leading to credit exposures arising both on and off balance sheet. The Company seeks to consolidate the hedging and clearing functions across its entities to internalise the trading flow; thus saving on hedging costs and maximising revenues from overnight financing. By consolidating intra-group hedging arrangements, the Company has a better standing with external counterparties. This translates to potentially lower costs for both the Company and its customers.

*Credit extended to clients*
In context of client trading accounts, The Company extends credit facilities to a limited number of clients that meet specified credit criteria ("Credit Clients"). In relation to extension of credit to clients, the Company's policy is to limit credit to any single client as well as the total exposure to all clients.

Credit Committee approve proposals for new credit clients with reviews carried out annually.

Specific margining rules and credit limits are set and regularly reviewed by the Credit Committee and reported to the Board.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 27. RISK MANAGEMENT (CONTINUED)

**Credit and counterparty risk (continued)**

*Counterparty risk arising on OTC derivatives*

With the majority of the Company's clients, the capital requirement for exposures arising from counterparty risk on OTC derivative trading is mitigated by a client's equity position (cash collateral). However, under exceptional circumstances, owing to the short amount of time taken for a significant market event to change market prices, clients may fall into negative balances (deficit) exposing the Company to credit risk. See defaulted client losses below.

*Defaulted client losses*

The Company also considers the possibility of risks that could arise if clients do not meet their margin requirement or in some cases go into deficit, which would potentially expose the Company to credit risk in respect of the margin call and/ or deficit. The Company has a strict policy where clients' useable margins cannot fall below zero. Positions are automatically closed where clients breach margin requirements. The exceptions are as follows:

- Significant price gapping; usually as the result of news during or out of market hours.
- A limited number of non-auto liquidated accounts where margin calls and liquidation of positions are performed manually.

**Market risk**

Market risk is the risk that exposures to market price fluctuations inherent in the positions held by the Company could give rise to a material loss given adverse price movements.

*FX and CFDs*

The Company offers leveraged trading in FX and CFD products and acts as the counterparty to client trades. FX trades are offset with an affiliate on a one-to-one basis, whilst CFD trades are managed based on the principles of the Company's established risk appetite.

CFD market risk arises from unhedged customer trades. To mitigate CFD market risk, the Company considers offsetting exposure with its third party clearing counterparties, however the majority of the market risk is offset with an affiliate, leaving minimal market risk component unhedged. The portion of unhedged market risk is subject to risk limits established by the Company's Board.

Market risk arising from CFD exposure is monitored in real time, allowing the dealing desk to identify open market risk positions for hedging purposes. The Head of the CFD desk and the Head of Global Dealing oversee the Company's hedging activities. The Company runs limited exposure positions so that portfolio hedges can be aggregated, rather than hedging its entire exposure on a trade-by-trade basis. Exposure limits are therefore set for individual products.

Sensitivity analysis on open CFD trades:

At 31 December 2018, the Company hedged all CFD market risk exposures. As such, if market prices in respect of CFD trades the Company had exposure to had weakened or strengthened, using the shock values in the table below, the profit or loss and equity of the Company for the financial year would have been $nil (2017: $18,738) higher or lower.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 27. RISK MANAGEMENT (CONTINUED)

**Market risk (continued)**

| Underlying CFD Price movement/ sensitivity | 2018 Shock % | 2017 Shock % |
|---|---|---|
| Bond | 5% | 5% |
| US2000 | 5% | —% |
| AUS200, FRA40, Copper | 10% | 10% |
| CHN50, SOYF, CORNF | 15% | —% |
| UK100 | 15% | 10% |
| ESP35, EUSTX50, GER30, HKG33, ITA40, JPN225, NAS100, SPX500, US30, XAU/USD | 15% | 15% |
| UKOil | 15% | 20% |
| WHEATF | 20% | —% |
| USOil, XAG/USD | 20% | 20% |
| NGAS | 20% | 30% |

Data source: Bloomberg 1-day move over past 30-years (judgement used where data gaps exist).

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Market risk exposure category | Potential profit or loss from price movement USD | Potential profit or loss from price movement USD |
| Equity | — | 6,979 |
| Commodity | — | 1,261 |
| Gold | — | 10,498 |
| **Total** | — | **18,738** |

*Currency mismatch risk*

The Company has exposures to currency mismatch risk through its normal course of business. This risk arises if obligations (i.e. money obligations) owed to clients in one currency are secured by deposits in a different currency and the exchange rate between these two currencies changes.

*Sensitivity analysis on currency mismatch risk*

At 31 December 2018, if the exchange rates in respect of the FX currency mismatch risk positions the Company had exposure to had weakened or strengthened, using the shock percentages in the table below, the profit or loss and equity of the Company would have been $532,057 (2017: $1,288,985) higher or lower.

| FX currency pair | Max shock % value 2018 | Max shock % value 2017 |
|---|---|---|
| GBP/USD | 5% | 10% |
| EUR/USD, USD/CAD, USD/HKD and USD/SGD | 5% | 5% |
| AUD/USD, NZD/USD, USD/JPY and USD/ILS | 10% | 10% |
| USD/CHF | 20% | 20% |

Data source: Bloomberg 1-day move over past 30-years (judgement used where data gaps exist).

For both the currency and CFD sensitivity analysis above where, in some cases, a currency (in relation to USD), Commodity, or Index price moved by a value greater than the shock values used for the stress, we reviewed the frequency of such moves and made an assessment for those products with infrequent market moves.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 27. RISK MANAGEMENT (CONTINUED)

### Operational risk

Operational risk refers to any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people and systems or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Company seeks to mitigate operational risk to acceptable residual levels.

Material operational risks identified through the risk assessment process include:

- Information technology and cyber security;
- Internal and external fraud; and
- Conduct risk

*Information Technology and Cyber Security*

The Company's operations are exposed to technology risk relating to its trading platforms and internal systems. This includes:

- Application errors;
- Data processing errors;
- System outages; and
- Breaches in system security.

The main controls that the Company has in place around system failures are:

- The Company undertakes system monitoring to ensure maximum system uptime as well as robust planned maintenance processes. As part of continuous system management, the Company is able to make use of wider and more extensive FXCM Group information technology (IT) resources to assist with any necessary incident management. IT management also work under the framework of the FXCM Group's internal best practice policies and control procedures to manage the Company's technology risks.
- Mission critical software is deployed in more than one location which minimises the extent of platform outage should a single server fail. Secondly, technology with inherent redundancy is used in mission critical systems (for example, multiple hard drives, duplex network connectivity and power supply systems) to avoid failure of the system itself. Additionally, redundant infrastructure is deployed at the most critical technology layers (for example, storage, databases and networking).
- To minimise data loss due to loss of the primary data centre, mission critical data is protected in enterprise standard databases for all trading accounts, traded positions and trading history and is replicated in near real time between two data centres. The Company's system backups are also replicated to a secondary data centre at the time of backup.
- A contingency plan for the interruption of the dealing operation is covered in the FXCM Group's Business Continuity/Disaster Recovery plan. Furthermore, the plan can be implemented at different phases depending upon the level of disruption.
- Dealer terminals connect to core systems from the trading room via secure networking and access to critical applications is monitored and reviewed.

*Internal and external fraud*

The Company has exposure to the risk of both internal and external fraud. Internal fraud is any act of deception by management and staff undertaken for unauthorised personal gain. External fraud can be described as losses due to acts of a type intended to defraud, misappropriate property, or circumvent the law by a third party.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 27. RISK MANAGEMENT (CONTINUED)

### Operational risk (continued)

The Company applies proportionate systems and controls to manage the risk of fraud, which include, but are not limited to the following:

- Continuous risk assessment based on the best available information from internal and external sources;
- Clear documentation of the Company's approach to complying with its legal and regulatory requirements in relation to fraud;
- Regular review and updating of policies;
- The monitoring of the effectiveness of policies procedures and controls by Internal Audit;
- Thorough vetting of staff in high risk roles;
- Tailored training to ensure staff knowledge is adequate and up to date; and
- New staff in customer facing positions receive financial crime training tailored to their role before being able to interact with customers.

*Conduct Risk*

Conduct risk is the risks arising from the Company's conduct in its direct relationship with all classifications of customers, or where the Company has a direct duty to those customers. The Company has a robust Market Abuse Policy which incorporates the conduct risks associated with ensuring market integrity is not compromised by the Company's actions or those of its clients.

The Chairman of the Risk Committee is responsible for:

- Ensuring the principles of Conduct Risk and the Risk Appetite are communicated throughout the organisation; and
- Ensuring that the Company maintains adequate Management Information, measuring the Company's adherence to its specified benchmarks for Conduct Risk Appetite.

The Compliance Officer is responsible for updating the Risk Committee on new regulations or guidance surrounding Conduct Risk.

### Regulatory risk

Regulatory risk is the risk that changes in regulation will materially affect the business of the Company or the markets in which it operates. The Company's business is subject to many regulations in different jurisdictions and currently the pace of change is significant and may affect the business of the Company either directly or indirectly, among others, by reducing customer appetite for products or increasing capital requirements.

Regulatory developments are continuously monitored and where there is a likely impact, internal groups are formed to assess, formulate and implement any required changes. The Compliance team in particular monitors on-going regulatory obligations, provides internal training and advice to the business.

Externally, the Compliance team engages in dialogue with the Company's main regulator and with industry bodies in order to inform the judgments and decisions made to ensure continued compliance with global regulations.

### Liquidity risk

Liquidity risk is the risk that a Company with positive net assets does not have sufficient financial resources at any one point to meet its obligations as they fall due, or can secure such resources only at excessive cost.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 27. RISK MANAGEMENT (CONTINUED)

### Liquidity risk (continued)

Typically, liquidity risks can arise from:
- A mismatch between asset and liability flows;
- An inability to sell assets quickly;
- The extent to which assets have been pledged;
- The possible need to reduce large asset positions at different levels of market liquidity and the related potential costs and timing constraints; and
- The availability of and costs of emergency funding.

The Company complies with the regulatory principles for sound liquidity risk management and supervision. Accordingly, each year, or more frequently if necessary, the Company undertakes an internal liquidity adequacy assessment process ("ILAAP") to determine the Company's liquidity adequacy. The Company's liquidity risk appetite is clearly defined by the Board together with Board-approved policies with respect to liquidity risk management. A liquidity buffer is maintained in the form of unencumbered cash and highly liquid government securities.

The Company's most significant liquidity risk can arise from a mismatch between asset and liability flows. Specifically, the Company may be exposed to risk in the event that the Company would have to meet its obligations to counterparties before it had received settlement from its counterparties.

The Company's liquidity needs are not a result of using short-term instruments to fund longer-term outflows. Rather, the Company's liquidity needs mainly arise from posting initial and variation margin at trading counterparties for the hedging of segregated client positions.

### Country and other concentration risk
Concentration risk is defined as the concentration of exposure from the geographical distribution of revenues, product type, counterparty or event.

The Company is exposed to single name concentration risk arising from client exposures in terms of cash placed and open positions.

The Company's clients are both individuals and institutions/ professionals from over 170 countries. This concentration is continuously monitored and reported to the Board.

It is the policy of the Company to ensure that exposures to counterparties do not exceed the limits in respect of the EU Capital Requirements Regulation, and a sufficient headroom is maintained at all times.

Monthly metrics related to client geographical concentrations are reported to RMC. Additionally, the Risk Management, Compliance, and Sales departments monitor and report geopolitical threats to the RMC.

### Group risk
The Company relies on Group affiliates for OTC derivative hedging, clearing, margin, support infrastructure, and IT systems.

The Company seeks to consolidate the hedging and clearing functions across its entities to optimise non-agency flow and save on hedging costs. Derivative hedging gives rise to counterparty risk exposures whilst

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 27. RISK MANAGEMENT (CONTINUED)

**Group risk (continued)**
margin and collateral is held between Group companies to satisfy trading positions, exposing the Company to credit risk.

Certain operational, administrative, technology functions and services are centralised and outsourced to Group affiliates. This reduces costs and enhances efficiency and effectiveness of the Company's business practices, increase management focus, reallocate internal resources towards core business functions, and accelerate the delivery of services to clients. Service Level Agreements ("SLA's") are in place governing shared services between Group entities. The Company reviews outsourcing arrangements on an annual basis, or more frequently if required.

A global Business Continuity Plan sets out guidelines for preparation, response and recovery from significant business disruptions with minimal impact to customers and other stakeholders. Individual Group affiliate offices maintain emergency response plans in the event of disruptions to service. The Global Compliance Monitoring department performs annual risk-based testing, to ensure all business continuity and emergency plans are adequate and effective.

The Company ensures relevant staff undergo centralised training, to maintain compliance with regulatory requirements and ensure such staff comply with competence standards. The Company maintains oversight over all outsourced functions, through Management information, generated by the Risk, Compliance and Internal Audit functions, which provides Board related information quarterly.

To control the various relationships with Group entities, SLA's and trading agreements are in place.

**Brexit risk**
European Union ("EU") regulations permit "passporting" where a Company registered in the European Economic Area ("EEA") may undertake business in any other EEA member state without the need to obtain additional authorisation. With the UK set to leave the EU on 29 March 2019, the Company anticipates losing the passporting right of its London office. Passporting is necessary if it wishes to continue offering its products to EU customers.

Since 2016, the Company began contingency planning should the UK lose passporting rights into the EEA. The primary objective was the establishment of a new EEA regulated entity that would be able to passport into the rest of Europe.

The Company considered Germany as the best jurisdiction and place of business given that FXCM already has a productive relationship with the German regulator, "BaFin" owing to the Company's Branch Office being in Berlin.

The Company is in early expectation of receiving a regulatory license to become a fully licensed €730k investment Company in Germany. The new entity, "FXCM Europe GmbH", will ensure that European customers contractually signed with FXCM Ltd. may enjoy continuity of service under the FXCM banner.

Upon receiving BaFin's authorisation, the existing EU branch offices of FXCM Ltd. will become branch offices of FXCM Europe GmbH.

**Notes to the Financial Statements**
**For the year ended 31 December 2018 (continued)**

## 28. SUBSEQUENT EVENTS

### Dividends paid to Forex Trading LLC

On 31 January, 2019, the directors recommended and approved a dividend payment in the amount of $6.5 million to the Company's immediate parent undertaking, Forex Trading LLC. The dividend amount was subsequently paid to FXCM Group, LLC, on behalf of Forex Trading LLC on 7 February 2019.

### Restructuring plan

Across the FXCM group of companies a restructuring plan was implemented in March 2019.