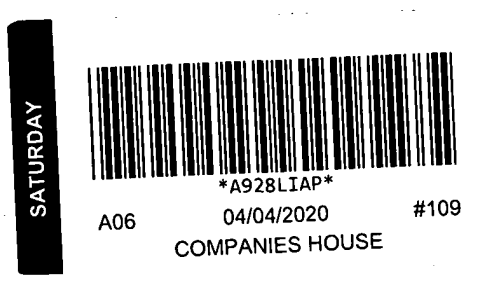


Registered number: 06557752

**CFH CLEARING LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**



**CFH CLEARING LIMITED**

**COMPANY INFORMATION**

**DIRECTORS**

Mr C S Frahm  
Mr O Rossing (resigned 3<sup>rd</sup> December 2019)  
Mr T T Madsen  
Mr M J Maloney  
Mr P M Mildon  
Mrs J Frøe  
Mrs R K Moller (resigned 16<sup>th</sup> July 2019)  
Mr M Levin (appointed 30<sup>th</sup> July 2019)  
Mr P Hearn (appointed 1<sup>st</sup> October 2019)

**COMPANY NUMBER**

06557752

**REGISTERED OFFICE**

11<sup>th</sup> Floor  
Broadgate Tower  
20 Primrose Street  
London  
EC2A 2EW

**INDEPENDENT AUDITOR**

BDO LLP  
150 Aldersgate Street  
London  
EC1A 4AB

**BANKERS**

HSBC Bank plc  
20 William Prance Road  
Plymouth  
PL6 5WR

# CFH CLEARING LIMITED

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## **CFH CLEARING LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **PRINCIPAL ACTIVITIES**

The principal activity of CFH Clearing Limited ("CFH") during the year was the provision of financial services, specifically brokerage services in foreign exchange trading. The company is regulated by the UK's Financial Conduct Authority (FCA).

#### **REVIEW OF THE BUSINESS**

During 2019, CFH Clearing Limited ("CFH") performed well, with notable achievements in financial performance, system robustness and customer support. The key performance indicators monitored by the directors were gross profit, cash availability, the company's solvency and regulatory capital for FCA purposes and the diversification of clients. Each of these KPIs improved over the course of 2019.

Our overall financial performance has been strong, with a 20% increase in profit before tax (from £5,015,735 to £6,027,966). Over the course of 2019 client volume was \$1.5tn, optimising our performance through a number of new initiatives rolled out to our client base resulting in increased turnover. Our business continued to onboard high quality clients throughout the year giving us a strong pipeline heading into 2020.

Turnover increased (from £12,297,585 to £20,314,462) as a result of an improvement in a number of revenue streams. Overall, gross profit grew by 34% which is the primary revenue KPI used to manage the business.

CFH's systems performed robustly in 2019 handling 20 million transactions during the year. We continue to make significant investments in the development of our technology to ensure it remains market beating and meets the ever increasing demand of our clients. During the year, we developed our liquidity offering by enhancing our analytic capabilities and designing bespoke liquidity solutions for our clients.

During the year the company continued to invest in its customer support and compliance functions. CFH maintains the highest standards of regulatory and legal compliance and seeks to adhere to all relevant requirements. The company continued to benefit from the strength of its parent, Playtech plc, and forms a key part of the Tradetech Group offering multi-asset cross-margined products to a growing global client base.

Regulatory capital and solvency are continually monitored. The company had a regulatory capital surplus of £20,734,211 as at 31 December 2019 (2018: £17,865,967), as a result of improved underlying financial performance. The directors are pleased to see this and seek to build on CFH's high quality technology solutions, services and access to diverse liquidity offering during the coming year. To conclude, the directors believe that 2020 will be a strong year for the business as we grow on the foundations laid in 2019.

#### **Principle Risks and Uncertainties**

CFH Clearing has conducted a thorough analysis of the likely impacts of Brexit on its business and subsequently developed plans that will ensure continuity of services to our clients, suppliers, staff and other stakeholders. These plans can be deployed rapidly depending on the outcome of Brexit negotiations. The directors have taken legal advice on these approaches and are confident that they will materially mitigate uncertainty for the business.

The regulatory landscape is uncertain and continuously evolving which requires CFH Clearing to remain up to date on any regulatory updates and changes.

CFH Clearing has one driver of income which is volatile and outside of management's hands but this is constantly monitored and prudently budgeted for subsequent years.

CFH continues to benefit from the recent increase in market volatility and has generated EBITDA in excess of budget so far in 2020. There is no certainty that market conditions will continue to remain as favourable as they have been so far in 2020.

## CFH CLEARING LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

#### Remuneration

Remuneration policy is determined by the Board of Directors with consideration of market employment conditions and regulatory requirements.

The total pay to directors and other code staff in 2019 was £1,257,474 <sup>(1)</sup> (2018: £2,279,895).

|              | Directors <sup>(1)</sup><br>2019<br>£ | Other Code<br>Staff <sup>(1)</sup><br>2019<br>£ | Directors <sup>(1)</sup><br>2018<br>£ | Other Code<br>Staff <sup>(1)</sup><br>2018<br>£ |
|--------------|---------------------------------------|---|---------------------------------------|---|
| Fixed pay    | 1,003,963                             | 651,237   | 715,106                               | 640,433   |
| Variable pay | 228,081                               | 273,651   | 541,554                               | 363,289   |
| Benefits     | 25,430                                | 22,068  | 6,817                                 | 12,697  |
|              | <u>1,257,474</u>                      | <u>946,956</u>                                  | <u>1,263,477</u>                      | <u>1,016,419</u>                                |

<sup>(1)</sup> Includes payments borne by Consolidated Financial Holdings A/S.

#### Statement in compliance with section 172(1) of CA 2006

The Directors of the Company are acutely aware of the requirement for them to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In considering this duty the Directors consider the following stakeholders:

##### *Shareholders*

As a private company, CFH has a sole shareholder which is Playtech plc, a company incorporated in the Isle of Man. The Directors have regular contact with Playtech plc which ensures that the business strategy of CFH is completely aligned with the strategic objectives of the Parent company.

##### *Employees*

A regular networking meeting of Executive Directors and management team meet on a regular basis to provide information for management to cascade to their teams and to enable Executive Directors to interact freely with employees. The company also provides internal publications, an intranet, communication programmes and management and staff meetings as well as a confidential whistleblowing hotline.

##### *Customers*

The Group has a varied customer base including fund managers, hedge funds, corporates and private individuals. The company has always been a customer needs led organisation and treating customers fairly is ingrained in the organisation. The behaviour of employees towards customers is governed by the company policies and the FCA's requirements.

##### *Suppliers*

We have various key supplier relationships which work more as a partnership which ensures the smooth running of our business.

##### *Community and the environment*

As a company CFH encourages and provides sponsorship to employees to take part in various charity events globally.

**CFH CLEARING LIMITED**

**STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

This report was approved by the board on 25<sup>th</sup> March 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Matt Maloney', written in a cursive style.

**Mr Matthew Maloney  
Director**

## **CFH CLEARING LIMITED**

### **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2019.

#### **RESULTS**

The profit for the year, after taxation, amounted to £4,831,733 (2018: £4,010,308). No dividend has been declared by the Board.

There have not been any political contributions made during the financial year (2018: nil).

#### **GOING CONCERN**

The Directors have considered the Company's ability to continue as a going concern and, having made appropriate enquiries of management are satisfied that the Company has sufficient resources to continue operating for the foreseeable future, and at a minimum for a period of 12 months from the date of this report. Accordingly, these financial statements have been prepared on a going concern basis.

#### **DIRECTORS**

The directors who served at the date of this report and who served throughout the year, except as otherwise stated, were as follows:

Mr C S Frahm  
Mr O Rossing (resigned 3<sup>rd</sup> December 2019)  
Mr T T Madsen  
Mr M J Maloney  
Mr P Mildon  
Mr P Hearn (appointed 1<sup>st</sup> October 2019)  
Mr M Levin (appointed 30<sup>th</sup> July 2019)  
Mrs R K Moller (resigned 16<sup>th</sup> July 2019)  
Mrs J Free

#### **STRATEGIC REPORT**

In accordance with section 414C of the Companies Act 2006, the company has produced a Strategic Report which is set out in pages 2 to 3.

#### **BRANCHES OUTSIDE THE UK**

The company has an unincorporated branch in Denmark. The branch refers potential clients to the UK branch.

#### **DIRECTORS AND OFFICERS INDEMNITY INSURANCE**

The company has taken out insurance to indemnify the Directors and Officers in respect of third party proceedings against them whilst they are serving on the Board of the Company. These indemnity policies subsisted throughout the year and remain in place at the date of this report.

#### **PROVISION OF INFORMATION TO AUDITOR**

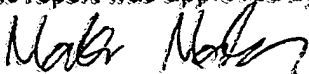
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

#### **INDEPENDENT AUDITOR**

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and BDO LLP will therefore continue in office.

This report was approved by the Board on 25<sup>th</sup> March 2020 and signed on its behalf by:

  
Mr Matthew Maloney  
Director

## **CFH CLEARING LIMITED**

### **DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



## **CFH CLEARING LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CFH CLEARING LIMITED**

#### **Opinion**

We have audited the financial statements of CFH Clearing Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

**In our opinion the financial statements:**

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

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

#### **Conclusions relating to going concern**

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

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

#### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Annual 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 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 this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

## CFH CLEARING LIMITED

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CFH CLEARING LIMITED

requirements.

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

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

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

#### **Responsibilities of Directors**

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Use of our report**

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

*BDO LLP*

**Vanessa-Jayne Bradley (Senior Statutory Auditor)**

**For and on behalf of BDO LLP, Statutory Auditor**

**London, UK**

25 March 2020

**BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).**

**CFH CLEARING LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

|   | Note | 2019        | 2018        |
|---|------|-------------|-------------|
|   |      | £           | £           |
| <b>Turnover</b>   | 3    | 20,314,462  | 12,297,585  |
| Cost of Sales   |      | (9,112,931) | (3,950,932) |
| Gross profit  |      | 11,201,531  | 8,346,653   |
| Administrative expenses                                     |      | (5,022,908) | (3,017,933) |
| <b>Operating Profit</b>                                     | 4    | 6,178,623   | 5,328,720   |
| Interest Income   |      | 271,553     | -           |
| Interest payable and similar charges                        | 5    | (422,209)   | (312,985)   |
| <b>Profit/(Loss) on ordinary activities before taxation</b> |      | 6,027,967   | 5,015,735   |
| Tax on (profit)/loss on ordinary activities                 | 8    | (1,196,233) | (1,005,427) |
| <b>Profit/(Loss) for the year</b>                           |      | 4,831,734   | 4,010,308   |
| <b>Other Comprehensive Income</b>                           |      |             |             |
| Gain/(Loss) on FX translation of foreign operation          |      | 120,652     | (28,734)    |
| Tax on other comprehensive income                           |      | -           | -           |
| <b>Total comprehensive profit/(loss) for the year</b>       |      | 4,952,386   | 3,981,574   |

All amounts relate to continuing operations.

The notes on pages 12 to 23 form part of these financial statements.

**CFH CLEARING LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019**

|  | Note | 2019                 | 2018                 |
|--|------|----------------------|----------------------|
|  |      | £                    | £                    |
| <b>Fixed assets</b>                                    |      |                      |                      |
| Tangible assets  | 9    | 88,344               | 93,707               |
| Intangible assets                                      | 10   | 113,591              | -                    |
| Right of use assets                                    |      | -                    | -                    |
| <b>Non-current assets</b>                              |      | <b>201,935</b>       | <b>93,707</b>        |
| <b>Current assets</b>                                  |      |                      |                      |
| Debtors  | 11   | 11,188,718           | 1,804,665            |
| Cash at bank and in hand                               | 14   | 126,544,181          | 150,036,564          |
| <b>Current assets</b>                                  |      | <b>137,732,899</b>   | <b>151,841,229</b>   |
| <b>Creditors – Amounts falling due within one year</b> | 12   | <b>(112,414,303)</b> | <b>(131,443,873)</b> |
| <b>Net current assets</b>                              |      | <b>25,318,596</b>    | <b>20,397,356</b>    |
| <b>Total assets less current liabilities</b>           |      | <b>25,520,531</b>    | <b>20,491,063</b>    |
| Lease liability  |      | (9,121)              | -                    |
| <b>Net assets</b>                                      |      | <b>25,511,410</b>    | <b>20,491,063</b>    |
| <b>Capital and reserves</b>                            |      |                      |                      |
| Called up share capital                                | 13   | 11,068,092           | 11,068,092           |
| Reserves   |      | 14,443,318           | 9,422,971            |
| <b>Total Equity</b>                                    |      | <b>25,511,410</b>    | <b>20,491,063</b>    |

The notes on pages 12 to 23 form part of these financial statements.

The financial statements on pages 9 to 23 were approved by the board of directors and authorised for issue on 25<sup>th</sup> March 2020 and were signed on its behalf by

  
Mr Matthew Maloney  
Director

Registered number: 06557752

CFH CLEARING LIMITED

STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2019

| Note   | Called Up<br>Share<br>Capital | Profit and<br>loss<br>account | Foreign<br>Exchange<br>Translation<br>Reserve | Total<br>Reserves | Total<br>Equity   |
|--|-------------------------------|-------------------------------|---|-------------------|-------------------|
|  | £                             | £                             | £   | £                 | £                 |
| Balance at 1<br>January 2019                           | 11,068,092                    | 9,633,853                     | (210,882)                                     | 9,422,971         | 20,491,063        |
| <b>Total<br/>comprehensive<br/>profit for the year</b> |                               |                               |   |                   |                   |
| Profit for the year                                    | -                             | 4,831,734                     | -   | 4,831,734         | 4,831,734         |
| Other<br>comprehensive<br>loss                         | -                             | -                             | 120,652                                       | 120,652           | 120,652           |
| <b>Total<br/>comprehensive<br/>profit for the year</b> | -                             | 4,831,734                     | 120,652                                       | 4,952,386         | 4,952,386         |
| Share based<br>payment reserve                         | -                             | 67,961                        | -   | 67,961            | 67,961            |
| <b>Balance at 31<br/>December 2019</b>                 | <b>11,068,092</b>             | <b>14,533,548</b>             | <b>(90,230)</b>                               | <b>14,443,318</b> | <b>25,511,410</b> |

| Note   | Called Up<br>Share<br>Capital | Profit and<br>loss<br>account | Foreign<br>Exchange<br>Translation<br>Reserve | Total<br>Reserves | Total<br>Equity   |
|--|-------------------------------|-------------------------------|---|-------------------|-------------------|
|  | £                             | £                             | £   | £                 | £                 |
| Balance at 1<br>January 2018                           | 11,068,092                    | 5,608,432                     | (182,148)                                     | 5,426,284         | 16,494,376        |
| <b>Total<br/>comprehensive<br/>profit for the year</b> |                               |                               |   |                   |                   |
| Profit for the year                                    | -                             | 4,010,308                     | -   | 4,010,308         | 4,010,308         |
| Other<br>comprehensive<br>loss                         | -                             | -                             | (28,734)                                      | (28,734)          | (28,734)          |
| <b>Total<br/>comprehensive<br/>profit for the year</b> | -                             | 4,010,308                     | (28,734)                                      | 3,981,574         | 3,981,574         |
| Share Issue  | -                             | 15,113                        | -   | 15,113            | 15,113            |
| <b>Balance at 31<br/>December 2018</b>                 | <b>11,068,092</b>             | <b>9,633,853</b>              | <b>(210,882)</b>                              | <b>9,422,971</b>  | <b>20,491,063</b> |

## CFH CLEARING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### GENERAL INFORMATION

CFH Clearing Limited ("CFH") is a limited company by shares domiciled and incorporated in England.

The address of the Company's registered office and principal place of business is 11<sup>th</sup> Floor, Broadgate Tower, 20 Primrose Street, London, EC2A 2EW.

The Company's principal activity during the year was the provision of financial services, specifically brokerage services in foreign exchange trading. The nature of the Company's operations is set out in the review of the business.

The financial statements are presented in sterling which is also the functional currency of the Company.

#### 1. ACCOUNTING POLICIES

##### 1.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention, and in accordance with the Companies Act 2006, including provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Playtech plc includes the Company in its consolidated financial statements. The consolidated financial statements of Playtech plc are prepared in accordance with IFRS and are available to the public and may be obtained from Playtech plc, Ground Floor, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

In these financial statements the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- A Cash Flow Statement and related notes
- Comparative period reconciliations for share capital and fixed assets

#### Accounting policies

##### 1.2 Going concern

The directors have taken the following steps to satisfy themselves of the company as a going concern:

- reviewed budgets and forecasts for the period to 31 December 2022
- reviewed the sensitivity of the business budgets and forecasts
- evaluated the company's access to capital

During 2019, CFH made certain enhancements to its product offering with expectations that this will lead to improved profitability in 2020. The directors have carefully considered the timetable for

## CFH CLEARING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

implementation of these changes along with contingency plans should they be required in relation to these projects and have concluded that the going concern assumption will not be affected.

CFH continues to benefit from the recent increase in market volatility and has generated EBITDA in excess of budget so far in 2020. There is no certainty that market conditions will continue to remain as favourable as they have been so far in 2020. The Directors have considered this when concluding CFH will continue as a going concern.

The Directors have conducted a thorough analysis of the likely impacts of Brexit on its business and subsequently developed plans that will ensure CFH continues as a going concern.

#### 1.3 Turnover

Fees and commissions in relation to forex broking transactions are recognised on the trade date of the underlying transaction. Other fees and commissions are recognised as services are provided. Turnover is reported gross of introducer commissions as these amounts directly link to turnover. Introducer commissions are included in cost of sales. Turnover includes interest receivable on broker trading deposits. Within turnover is swap income which is offset against swap cost recognised in cost of sales. Where applicable, turnover is stated exclusive of value added tax.

#### 1.4 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

#### 1.5 Interest receivable and payable

Interest payable and similar expenses include interest payable, finance expenses on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

#### 1.6 Depreciation and Amortisation

Intangible and tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation or amortisation and any impairment losses. Depreciation and amortisation is provided on fixed assets, at rates calculated to write off the cost of each asset to its estimated residual value on a straight line basis over their estimated useful life. Estimated useful lives are as follows:

|                          |           |
|--------------------------|-----------|
| - software development   | 36 months |
| - leasehold improvements | 60 months |
| - computer equipment     | 36 months |
| - fixtures and fittings  | 36 months |
| - software licenses      | 36 months |

Depreciation and amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

## CFH CLEARING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 1.7 Financial Instruments

Trade debtors are categorised as 'Loans and receivables' and recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. An allowance for impairment is made when there is objective evidence that the company will not be able to collect the debt.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

The Company has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

#### 1.8 Operating leases

As of 1 January 2019, IFRS16 was adopted resulting in the capitalisation of the rental lease and subsequent amortisation of the right of use asset over the lifetime of the lease until the break clause. Interest is accrued of the total value of the lease liability. Adoption of IFRS16 had minimal impact on these financial statements.

#### 1.9 Taxation

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event if relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

**1.10 Foreign currencies**

Transactions in currencies other than the functional currency (foreign currencies) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

Foreign exchange differences resulting on re-translation of monetary items are recognised in profit or loss account. Foreign exchange differences arising on translation of foreign operations are recognised in other comprehensive income and are not recycled.

**1.11 Share capital**

The company's share capital is denominated in Euro and is translated to pounds sterling at the exchange rate effective on the date the shares are issued. Share capital is carried at historic cost.

**1.12 Critical accounting estimates and judgements**

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The adoption of IFRS 9 in the prior year did not have any material impact on the financial statements.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

**Critical Judgements: Debtors**

In determining the likely recoverability of past due debtors, management makes judgements as to the credit worthiness of the debtor.

**1.13 IFRS 9: Financial Instruments**

In July 2014, the IASB issued IFRS9 Financial Instruments that replaces IAS39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS9. IFRS9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The Company has adopted IFRS9, except for hedge accounting which is not applied by the Company, with a date of transition of 1 January 2018. The Company did not early adopt any of IFRS9 in previous periods.

The key changes to the Company's accounting policies resulting from its adoption of IFRS9 are summarised below:

*Classification and measurement*

Under IFRS9 financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVTOCI) and those to be measured subsequently at fair value through profit and loss (FVTPL). Classification of debt instruments is driven by the entity's business model for managing its financial assets and whether the cash flows represent solely payments of

principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised costs if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sell assets may be classified as FVTOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL. Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. Investments in equity instruments are always measured at fair value. However, management can make irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit and loss. Most of the requirements in IAS39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS9.

*Impairment*

IFRS9 introduced a new model for recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Entities must calculate probability of default (PD), losses given default (LGD) and exposure at default (EAD) to estimate security-level expected credit loss provisioning amounts. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables. The Company applied the 'three-stage' approach to determine a minimal expected credit loss.

## CFH CLEARING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 2. FINANCIAL RISK MANAGEMENT

The directors monitor and measure on an ongoing basis the risks affecting the company.

The company's Internal Capital Adequacy Assessment Process (ICAAP) is prepared and monitored in accordance with FCA requirements. The ICAAP provides an ongoing assessment of the risks the Company believes have the potential to have significant detrimental impact on its performance and prospects and describes how the Company mitigates these risks subject to the Company's risk appetite. Financial risks arising from financial instruments are separated into market, credit and liquidity risks discussed below.

##### Market Risk - Foreign currency risk

Foreign exchange risk arises when obligations of the Company are to be paid in a currency other than GBP. At the year end the company holds cash and has obligations to creditors primarily in Euro and US Dollars. The GBP to USD and GBP to Euro exchange rates at 31 December 2019 were \$1.229 (2018: \$1.2755) and €1.1279 (2018: €1.1123) respectively.

|                            | 2019      | 2018      |
|----------------------------|-----------|-----------|
|                            | £         | £         |
| Net assets / (liabilities) |           |           |
| Euro                       | 288,561   | 233,653   |
| US Dollar                  | (532,224) | 5,427,086 |
| Other currencies           | 4,313,122 | 2,689,902 |

Based on the company's year-end net asset denominated in non-Sterling currencies the impact of a 10% strengthening in Sterling against the other currencies would be a loss of £2,180,136 (2018: £2,005,515) and the impact of a 10% weakening in Sterling against the other currencies would be a gain of £2,671,970 (2018: £2,451,185).

As the Company trades on a matched principal basis, the financial instruments are used to hedge all client positions. The management of market risk in respect of matching of derivatives is through active monitoring and management by senior personnel and management under the supervision of the Board of directors.

The Company is not exposed materially to any other form of market risk, including interest rate risk.

##### Credit risk

At 31 December 2019 the Company had credit exposures of £138,021,526 (2018: £152,639,699), of which £111,454,543 (2018: £146,366,941) was cash held with counterparties with at least a rating of A and £15,089,638 (2018: £3,323,313) was cash held with counterparties with at least a rating of B, £11,500 (2018: £27,401) were amounts due from institutions with a credit rating of A or better, £8,979,583 (2018: £2,922,045) was an amount due from an unrated affiliate. Included within Other debtors are gross amounts of £989,264 (2018: £1,135,653) which are past due and against which provisions of £122,025 are held (2018: £122,025) resulting in net amounts past due of £867,239 (2018: £1,013,628).

##### Liquidity risk

Liquidity risk is the risk of not being able to meet liabilities as they fall due. The Company's obligations are monitored daily and the Company is adequately capitalised and has steady revenues to meet its day to day obligations. All of the company's obligations are due in less than one year.

##### Capital management

The company's regulatory capital resources management objective is to ensure it complies with the regulatory capital resources requirements set by the FCA. The company's capital management policy aims to maximise returns, whilst maintaining a strong capital position to support the development of the business. The company has not breached its minimum requirements during the year.

As at 31 December 2019, CFH held £25,511,410 (2018: £20,491,063) of Tier 1 capital in the form of ordinary share capital and audited reserves. The company had a significant regulatory capital surplus of £20,734,211 as at 31 December 2019 (2018: £17,863,790).

**CFH CLEARING LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019****3. TURNOVER**

|                       | 2019              | 2018              |
|-----------------------|-------------------|-------------------|
|                       | £                 | £                 |
| Rendering of services | <u>20,314,462</u> | <u>12,297,585</u> |

All turnover is derived from activities within the UK.

**4. OPERATING PROFIT**

Profit on ordinary activities before taxation is stated after charging/(crediting):

|   | 2019           | 2018           |
|---|----------------|----------------|
|   | £              | £              |
| Depreciation                                  | 204,699        | 39,728         |
| Operating leases – buildings                  | -              | 147,647        |
| Foreign exchange gain                         | 411,385        | 144,089        |
| Bad debt provision                            | 58,368         | (201,289)      |
| Fees payable to the company's auditor:        |                |                |
| - for the audit of these financial statements | 55,000         | 90,500         |
| - for audit-related assurance services        | 21,500         | 18,000         |
| Total payable to the company's auditor        | <u>750,952</u> | <u>238,675</u> |

**5. INTEREST**

|   | 2019           | 2018           |
|---|----------------|----------------|
|   | £              | £              |
| Interest paid to group undertakings     | 61,431         | 263,296        |
| Interest paid and charges paid to banks | 68,710         | 49,689         |
| Interest on lease liability             | 20,515         | -              |
|   | <u>150,656</u> | <u>312,985</u> |

**CFH CLEARING LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019****6. EMPLOYEES**

Staff costs, including directors' remuneration, were as follows:

|                       | 2019             | 2018             |
|-----------------------|------------------|------------------|
|                       | £                | £                |
| Wages and salaries    | 2,532,102        | 1,584,217        |
| Social security costs | 251,389          | 157,963          |
| Other Pension Costs   | 47,482           | 26,569           |
|                       | <u>2,830,973</u> | <u>1,768,749</u> |

The wages and salaries above does not include costs borne by the parent company related to a number of directors' remuneration.

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

|                   | 2019      | 2018      |
|-------------------|-----------|-----------|
|                   | Number    | Number    |
| Directors         | 7         | 6         |
| Sales employees   | 7         | 8         |
| Support employees | 10        | 8         |
|                   | <u>24</u> | <u>22</u> |

**7. DIRECTORS' REMUNERATION**

|                      | 2019             | 2018             |
|----------------------|------------------|------------------|
|                      | £                | £                |
| Aggregate emoluments | <u>1,257,474</u> | <u>1,263,477</u> |

Contributions to a personal pension totalled £22,358 (2018: £6,817)

| <b>Highest Paid Director</b> | 2019           | 2018           |
|------------------------------|----------------|----------------|
|                              | £              | £              |
| Emoluments                   | <u>249,206</u> | <u>473,036</u> |

## CFH CLEARING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 8. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

Factors affecting the current tax charge are explained below:

|  | 2019             | 2018             |
|--|------------------|------------------|
| Current tax:   | £                | £                |
| UK corporation tax   | 1,201,860        | 991,493          |
| Adjustments in respect of prior periods  | -                | 14,849           |
| Total current tax charge   | <u>1,201,860</u> | <u>1,006,342</u> |
| Deferred tax:  |                  |                  |
| Origination and reversal of temporary differences  | (5,627)          | (1,310)          |
| Adjustments in respect of prior periods  | -                | 395              |
| Total deferred tax charge/(credit)   | <u>(5,627)</u>   | <u>(915)</u>     |
| Total (credit)/charge on profit/(loss) on ordinary activities  | <u>1,196,233</u> | <u>1,005,427</u> |
| <br>   |                  |                  |
| Profit/(Loss) on ordinary activities before tax  | <u>6,148,618</u> | <u>5,015,735</u> |
| <br>   |                  |                  |
| Profit/(Loss) on ordinary activities at the effective rate of corporation tax in the UK: 19.00% (2018: 19.00%) | 1,168,237        | 952,990          |
| Effects of:  |                  |                  |
| Expenses not deductible for tax purposes   | 27,334           | 31,489           |
| Fixed asset differences  | -                | 5,550            |
| Adjustments to tax charge in respect of previous periods - deferred tax  | -                | 395              |
| Adjust closing deferred tax to average rate at 19%   | 872              | 210              |
| Adjust opening deferred tax to average rate at 19%   | (210)            | (56)             |
| Current tax (credit)/charge for the year   | <u>1,196,233</u> | <u>1,005,427</u> |

On 16 March 2016 the UK Government announced a further one percent reduction in the main rate of UK Corporation Tax in 2020-21, the effect of this reduction is to lower the rate to 17 percent in 2020-21. This rate change has been substantively enacted at the balance sheet date and accordingly these changes have been reflected in these Financial Statements.

**CFH CLEARING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

**9. TANGIBLE FIXED ASSETS**

|                              | Computer<br>Equipment | Leasehold<br>Improvements | Fixtures<br>and<br>Fittings | Software<br>Licences | Total            |
|------------------------------|-----------------------|---------------------------|-----------------------------|----------------------|------------------|
|                              | £                     | £                         | £                           | £                    | £                |
| <b>Cost</b>                  |                       |                           |                             |                      |                  |
| At 1 January 2019            | 85,395                | 73,297                    | 74,674                      | 33,513               | 266,879          |
| Additions                    | 42,833                | -                         | -                           | -                    | 42,833           |
| Disposals                    | (42,927)              | -                         | (32,872)                    | (279)                | (76,079)         |
| <b>Total Cost</b>            | <b>85,301</b>         | <b>73,297</b>             | <b>41,802</b>               | <b>33,234</b>        | <b>233,633</b>   |
| <b>Depreciation</b>          |                       |                           |                             |                      |                  |
| At 1 January 2019            | (75,217)              | (28,113)                  | (62,767)                    | (7,075)              | (173,172)        |
| Depreciation charge for year | (13,805)              | (14,659)                  | (8,720)                     | (11,009)             | (48,193)         |
| Disposals                    | 42,927                | -                         | 32,872                      | 276                  | 76,075           |
| <b>Total depreciation</b>    | <b>(46,095)</b>       | <b>(42,772)</b>           | <b>(38,615)</b>             | <b>(17,808)</b>      | <b>(145,290)</b> |
| <b>Net Book Value</b>        |                       |                           |                             |                      |                  |
| At 31 December 2019          | 39,206                | 30,525                    | 3,187                       | 15,426               | 88,344           |
| At 31 December 2018          | 10,178                | 45,184                    | 11,907                      | 26,438               | 93,707           |

**10. INTANGIBLE ASSETS**

|                          |  |                         |
|--------------------------|--|-------------------------|
|                          |  | Software<br>Development |
|                          |  | £                       |
| Cost                     |  |                         |
| At 1 January 2019        |  | -                       |
| Additions                |  | 118,579                 |
| At 31 December 2019      |  | <u>118,579</u>          |
| Accumulated Amortisation |  |                         |
| At 1 January 2019        |  | -                       |
| Charge for year          |  | (4,988)                 |
| At 31 December 2019      |  | <u>(4,987)</u>          |
| Net Book Value           |  |                         |
| At 31 December 2019      |  | <u>113,591</u>          |
| At 31 December 2018      |  | <u>-</u>                |

**CFH CLEARING LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019****11. DEBTORS**

|                                    | 2019              | 2018             |
|------------------------------------|-------------------|------------------|
|                                    | £                 | £                |
| Trade debtors                      | 266,183           | 239,725          |
| Other debtors                      | 1,058,790         | 1,121,709        |
| Amounts owed by group undertakings | 8,979,583         | 154,555          |
| Deferred tax asset                 | 7,413             | 1,786            |
| Prepayments and accrued income     | 876,749           | 286,890          |
|                                    | <u>11,188,718</u> | <u>1,804,665</u> |

The amounts owed by group undertakings are unsecured, interest-free and repayable on demand.

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

| Amounts falling due within one year | 2019               | 2018               |
|-------------------------------------|--------------------|--------------------|
|                                     | £                  | £                  |
| Trade creditors                     | 288,859            | 74,527             |
| Other creditors                     | 110,786,916        | 130,077,251        |
| Social security and other taxes     | 115,424            | 103,853            |
| Corporation tax payable             | 419,590            | 629,219            |
| Accruals and deferred income        | 803,514            | 559,023            |
|                                     | <u>112,414,303</u> | <u>131,443,873</u> |

Within Other creditors is an amount of £110,731,106 (2018: £129,638,753) owing to clients, being a combination of margin deposited by clients for trading and the profit or loss generated by such trades.

The amounts owed to group undertakings are unsecured, interest-free and repayable on demand.

**13. SHARE CAPITAL**

|  | 2019              | 2018              |
|--|-------------------|-------------------|
|  | £                 | £                 |
| Allotted and fully paid                                  |                   |                   |
| 11,611,072 (2018: 11,611,072) ordinary shares of €1 each | <u>11,068,092</u> | <u>11,068,092</u> |



**CFH CLEARING LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019****14. CASH AND CASH EQUIVALENTS**

|                          | At 1 January<br>2019<br>£ | At 31 December<br>2019<br>£ |
|--------------------------|---------------------------|-----------------------------|
| Cash at bank and in hand | 150,036,564               | 126,544,181                 |

Cash at bank and in hand comprise of cash held with banks.

**15. RELATED PARTY TRANSACTIONS**

|                       | Sales to          |                | Administrative expenses incurred<br>from |                  |
|-----------------------|-------------------|----------------|--|------------------|
|                       | 2019<br>£         | 2018<br>£      | 2019<br>£                                | 2018<br>£        |
| Parent                | 271,553           | -              | 8,537,168                                | 7,330,630        |
| Other related parties | 13,879,510        | 601,247        | 142,248                                  | -                |
|                       | <u>14,151,063</u> | <u>601,247</u> | <u>8,679,416</u>                         | <u>7,330,630</u> |

Other related parties includes subsidiaries of Playtech plc.

**16. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The ultimate parent undertaking is Playtech plc, a company incorporated on the Isle of Man. Financial statements for the parent undertaking can be obtained from Playtech plc, Ground Floor, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE. Playtech plc does not have a single controlling shareholder.

The largest group in which the results of the Company are consolidated is that headed by Playtech plc, Ground Floor, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE. The smallest group in which they are consolidated is that headed by Consolidated Financial Holdings A/S, Dampfærgevej 8, 4th floor, 2100, Copenhagen, Denmark. The consolidated financial statements of these groups are available to the public.

**17. SUBSEQUENT EVENTS**

Since the Company's year end the world has been plunged into a healthcare emergency arising from the Covid-19 pandemic, the possible extent of which cannot yet be assessed. This will likely have an adverse impact on all companies. CFH continues to benefit from the recent increase in market volatility and has generated EBITDA in excess of budget so far in 2020. There is no certainty that market conditions will continue to remain as favourable as they have been so far in 2020.

## **CFH CLEARING LIMITED**

### **APPENDIX 1 (Unaudited)**

#### **RISK MANAGEMENT**

The directors monitor and measure on an ongoing basis the risks affecting the company. A full disclosure of the directors' assessment of these risks and how they are mitigated is detailed below.

##### **Overview**

CFH Clearing Limited is regulated by the Financial Conduct Authority (the "FCA"). Within its Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), the FCA has set out its regulations for implementation of the Basel 2 capital adequacy framework. This framework consists of three pillars, each of which focuses on a different aspect of capital adequacy and stability.

Pillar 1 is a formal set of rules for calculating a firm's minimum capital requirements.

Pillar 2 focuses on a firm's internal capital adequacy assessment process.

Pillar 3 is designed to be a public disclosure of a firm's risk and capital profile building upon Pillar 1 and Pillar 2.

##### **Pillar 3 disclosure**

The following is the Pillar 3 disclosure for CFH Clearing Limited ("CFH") in accordance with the FCA's BIPRU regulations (Chapter 11).

##### **Scope**

CFH is a wholly owned subsidiary of Consolidated Financial Holdings A/S. For the purposes of the FCA requirements, this disclosure relates to CFH alone. CFH does not have any subsidiary undertakings.

##### **Capital Resources**

As at 31 December 2019, CFH held £25,511,410 (2018: £20,491,063) of Tier 1 capital in the form of ordinary share capital and audited reserves.

##### **Internal Capital Adequacy Process – "ICAAP"**

CFH considers the ICAAP process a key risk management and monitoring tool, comprising the business' risk management framework, business planning and capital management.

##### ***Risk Management Framework***

CFH has compiled a risk matrix to identify its key risks and to enable ongoing management and monitoring of these risks ("Risk Matrix"). The matrix was compiled by senior management and reviewed and approved by the Board.

The Board and senior management of CFH comprise six executives and one independent non-executive director, with significant senior level knowledge and understanding of the industry and management expertise.

Senior Management has identified the key risks which it expects the business to face based on their experience and knowledge of the industry. It has measured and ranked the risks according to their significance and likelihood.

The Risk Matrix is used as a basis for ongoing management and monitoring of the risks facing the business. Risks are monitored by the legal, operational and finance teams on a continuous basis and reports submitted to the Board at regular board meetings. The Risk Matrix itself is reviewed annually by the Board.

## **CFH CLEARING LIMITED**

### **APPENDIX 1 (Unaudited)**

#### *Business Planning*

Strategic planning is led by the CEO of CFH and considered at Board level. In determining the best route to growth and profitability for the business, the Board considers various factors including the markets in which it wants to operate, the clients it should target, the technology it should use, the products it should research and develop to sell and the overall risk appetite of the business.

Strategic planning is supported by financial planning. The Finance department compiles the annual budget, based on assumptions provided by senior management of the business and ratified by the Board. The budget is reviewed and approved by the Board. This is updated annually for review and sign off by the Board. In addition, the finance department compiles a three year forecast on the same basis as the annual budget.

#### *Capital Management*

The company is supervised by the UK's Financial Conduct Authority (FCA). The company's regulatory capital resources management objective is to ensure it complies with the regulatory capital resources requirements set by the FCA. The company's capital management policy aims to maximise returns, whilst maintaining a strong capital position to support the development of the business. The company's Internal Capital Adequacy Assessment Process (ICAAP) is prepared and monitored in accordance with FCA requirements. The company had significant surplus regulatory capital resources over resources requirements throughout the year.

#### **Capital Requirements**

##### *Credit Risk*

Credit risk is defined as "the potential loss to an institution of all or part of a loan, outstanding debtor balance, security, guarantee or indemnity given by the institution."

For CFH, credit risk principally arises from the settlement of market transactions, amounts receivable from clients and counterparties and bank deposits.

The credit risk from settlement of market transactions is mitigated by the fact that CFH only trades with recognised and creditworthy liquidity providers.

The credit risk arising from amounts receivable from clients is mitigated by the fact that all clients deposit margins before they commence trading and any commission owed to CFH by the clients is taken directly from this margin. Client trades are stopped out automatically when a certain proportion of the margin has been lost.

Other trade receivables arising from amounts invoiced on a monthly basis are followed up when required by CFH's Finance department. These receivables stood at £304,433 as at 31 December 2019 (2018: £303,529). These amounts were collected within normal terms subsequent to year end.

CFH regularly assesses all of its amounts receivable and calculates the additional capital required to be held against these exposures in accordance with the FCA guidance and any further capital as determined by the Board.

Bank deposits are placed with a number of banks each of which has a high credit rating.

##### *Market Risk*

Market risk is defined as "the risks that arise from fluctuations in values of, or income from assets or in interest or exchange rates."

CFH has been granted a variation of permission to become a Full Scope IFPRU 730k firm. Going forward, this will affect the capital requirement above as CFH intends to hold limited Market Risk for short periods of

## CFH CLEARING LIMITED

### APPENDIX 1 (Unaudited)

time. CFH anticipate that there are efficiencies to be gained through this activity whilst still observing the best execution requirements of its clients. CFH intends that market risk shall at all times equate to <£2m of regulatory capital. As CFH's expertise in this area develops, it is possible that the risk positions will grow but at all times it is envisaged that, through the application of proprietary, automated risk management tools, balance sheet risk will never exceed 50% of available capital. The budget assumes that no more than £2m of Tier 1 Capital will be required to mitigate Market Risk.

CFH does have some foreign exchange exposure, in that the majority of its revenues are in US Dollars and its costs are in Sterling. The Board monitors this and will consider hedging any position if it considers this appropriate.

CFH does not have any loans payable and so its interest rate risk is negligible.

#### *Operational Risk*

Operational risk is defined as "the risks of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risks."

CFH seeks to mitigate operational risk to acceptable residual levels by maintaining a strong control environment which is overseen by the Directors and the Head of Operations. In addition, CFH seeks to employ skilled and appropriately qualified staff to maintain the requisite systems and perform the processes within this control environment.

In addition, CFH has taken out appropriate insurance cover.

CFH maintains Pillar 1 Capital in respect of an operational risk capital requirement. The Board regularly reviews whether Pillar 2 capital is required beyond this in respect of operational risk.

#### *Liquidity Risk*

Liquidity risk is defined as "the risk arising from a mismatch between assets and liabilities and the ability to realise assets to meet liabilities as they fall due."

The company's Internal Liquidity Adequacy Assessment (ILAA) is prepared and monitored in accordance with FCA requirements.

The large majority of CFH's assets are held as cash. The CFH treasury function holds this cash in liquid funds in order that CFH can meet its liabilities as they fall due.

In addition, the nature of CFH's business and the method by which it earns commission revenues from clients which are paid daily from client margin accounts, mean that CFH has a high correlation between profitability and cash generation.

#### *Concentration Risk*

Concentration risk is defined as "the risk arising due to exposure to sectoral, geographic, liability and assets concentration".

CFH conducts business globally and has no particular geographic concentration risk. As a growing business, CFH continues to diversify its client base and product offering. The Board reviews concentration risk and encourages the growth in clients and products, but within a controlled environment.

#### *Reputational Risk*

Reputational risk is defined as "the risk that poor performance or poor customer services may lead to potential economic loss."

## **CFH CLEARING LIMITED**

### **APPENDIX 1 (Unaudited)**

CFH mitigates this risk principally by employing appropriately qualified and skilled staff in all areas of the business to ensure high standards of client service. In addition, CFH performs detailed due diligence on any outsourced service providers and continues to monitor the performance of these providers.

#### *Business Risk*

Business risk is defined as "any risk to a firm arising from change in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy."

The Board of CFH meet on a bi-monthly basis at least (and on an ad hoc basis where required) to discuss business strategy and changes in the market and business environment in which CFH operates. There are members of the Board who are not involved in the day-to-day management of the business. This allows for discussions on all elements of business strategy and reassessment of strategy where appropriate.