Tradition London Clearing Limited

Strategic Report, Directors' Report and Statutory Financial Statements

31 December 2015

Registered No: 3633863

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General Information

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

Secretary
S Green

Auditors
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Bankers
NatWest
116 Fenchurch Street
London
EC3M 5AN

Solicitors
Mayer Brown International LLP
201 Bishopsgate
London
EC2M 3AF

Registered Office
Beaufort House
15 St. Botolph Street
London
EC3A 7QX

Strategic Report

The directors present their Strategic Report for the year ended 31 December 2015.

Results and dividends

Tradition London Clearing Limited (the "Company") recognised a profit for the year after taxation of £65k (2014: £87k) as shown in the Statement of Comprehensive Income on page 10. The profit for the year was transferred to reserves reducing retained losses brought forward. The directors do not recommend paying a final dividend (2014: £nil).

Principal activities and review of the business

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

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

During the year turnover decreased from £3,740k to £3,415k, a decrease of 8.7% and operating profit decreased from £138k to £86k, resulting in a post-tax profit for the year of £65k (2014: 87k). The Trade Debtor and Trade Creditor balances at year end represent trades in settlement over year end and are a normal part of provision of clearing services undertaken by the Company.

Shareholders' funds increased from £2,350k to £5,215k after applying the profit after tax for the year, in addition to a share capital injection of £1,400k and a further £1,400k conversion of subordinated debt previously obtained from Tradition Service Holdings S.A. Post Balance Sheet close, Share Capital has been reduced by £1,100k following a written resolution passed by the Directors, and has been used to offset the carry forward losses in Retained Earnings, leaving no impact on overall Shareholders' Funds.

In accordance with the changes to United Kingdom ("UK") GAAP which came into force 1 January 2015 the Company elected to apply FRS 101 – Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, Tradition Service Holding S.A., was notified of and did not object to the use of the EU adopted IFRS disclosure exemptions. There were no material recognition or measurement differences arising on the adoption of FRS 101.

Principal risks and uncertainties

The main risks facing the business arising out of its clearing activities are operational risk (including settlement risk), credit risk and liquidity risk (see note 19: Financial risk management policies and objectives).

Strategic Report

Capital management

The responsibility for the Company's capital planning lies with the Board of Directors (the "Board"). Any changes to capital are proposed to the Board and also require the approval of Tradition Service Holding S.A.

Capital is generated from shareholder funds. Shareholder funds are in the form of share capital and retained earnings. In addition, the Company can increase its regulatory capital resources through subordinated debt obtained from its immediate parent company, Tradition Service Holding S.A.

By order of the board



T DeSaintOuen
Director
19 April 2016

Directors' Report

Registered No: 3633863

The directors present their Report for the year ended 31 December 2015.

Directors and their interests

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

C Bienstock
P Brault
F Brisebois
T DeSaintOuen
S Sterling (resigned 17 February 2016)
W Wostyn

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

Directors' liability

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

Going concern

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

Donations

During the year the Company made no charitable donations (2014: nil).

Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Directors' Report

Employee involvement

During the year, the policy of providing employees with information about the Company has been continued through e-mail, memos and verbal communication. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Disclosure of information to the auditor

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

The directors confirm that, to the best of each person's knowledge:

(a) the financial statements in this report, which have been prepared in accordance with UK GAAP (UK Accounting Standards including Financial Reporting Standard 101 'Reduced Disclosure Framework)' and the Companies Act 2006, give a true and fair view of the assets, liabilities, balance sheet and profit of the company; and

(b) the director's report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

Subsequent events

Post Balance Sheet close, Share Capital has been reduced by £1,100k following a written resolution passed by the Directors, and has been used to offset the carry forward losses in Retained Earnings, leaving no impact on overall Shareholders' Funds

Future developments

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

Auditors

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

By order of the board



T DeSaintOuen

Director

19 April 2016

Statement of directors' responsibilities in respect of the financial statements

The following statement, which should be read in conjunction with the independent auditors report on pages 8- 9, is made by the directors to explain their responsibilities in relation to the preparation of the Director's Report, Strategic Report and Financial Statements.

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit of the Company for that period.

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

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

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time, the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors' report

to the members of Tradition London Clearing Limited

We have audited the financial statements of Tradition London Clearing Limited for the year ended 31 December 2015 which comprise the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' applicable to the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports of the Board of Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs for the year ended 31 December 2015 and of the Company's 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.

Independent auditors' report

to the members of Tradition London Clearing Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Ernst & Young LLP

Maurice McCormick (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
21 April 2016

Statement of Comprehensive Income

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Turnover	3	3,415	3,740
Administrative expenses		(3,329)	(3,602)
Operating profit	4	86	138
Interest receivable	5	19	16
Interest payable	6	(23)	(43)
Profit on ordinary activities before taxation		82	111
Tax on profit on ordinary activities	9	(17)	(24)
Profit on ordinary activities after taxation		65	87

The Statement of Comprehensive Income is derived from continuing operations in the current and prior year.

The notes on pages 13 - 24 form part of these financial statements.

Balance Sheet

as at 31 December 2015

	Notes	2015 £000	2014 £000
Fixed assets			
Tangible fixed assets	10	16	-
Deferred tax	15	4	5
		20	5
Current assets			
Debtors	11	516,706	672,769
Cash at bank and in hand	12	10,152	8,883
		526,858	681,652
Creditors: amounts falling due within one year	13	(521,647)	(677,884)
Corporation tax		(16)	(23)
		(521,663)	(677,907)
Net current assets		5,195	3,745
Creditors: amounts falling due after one year	14	-	(1,400)
Total assets less current liabilities		**5,215**	**2,350**
Capital and reserves			
Called up share capital	16	6,250	3,450
Profit and loss account		(1,035)	(1,100)
Shareholders' funds		**5,215**	**2,350**

The notes on pages 13 - 24 form part of these financial statements.

The financial statements were approved by the board of directors on 19 April 2016 and were signed on its behalf by:

T DeSaintOuen
Director

Statement of Changes in Equity

as at 31 December 2015

	Share Capital £000	*Retained Earnings £000*	*Total equity £000*
At 1 January 2014	3,450	(1,187)	2,263
Profit for the year	-	87	87
At 31 December 2014	3,450	(1,100)	2,350
At 1 January 2015	3,450	(1,100)	2,350
Profit for the year	-	65	65
Share Capital Injection	2,800	-	2,800
At 31 December 2015	**6,250**	**(1,035)**	**5,215**

The notes on pages 13 - 24 form part of these financial statements.

Notes to the financial statements

at 31 December 2015

1. Authorisation of financial statements

The financial statements of Tradition London Clearing Limited for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 19 April 2016, and the balance sheet was signed on the Board's behalf by T DeSaintOuen.

2. Accounting policies

2.1 Basis of preparation

For all periods up to and including the year ended 31 December 2014, the Company prepared financial statements in accordance with UK GAAP. These financial statements for the year ended 31 December 2015 are the first the Company have prepared in accordance with FRS 101.

The Company's deemed transition date to FRS 101 was 1 January 2014. There were no material amendments on the adoption of FRS 101.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) Comparatives for tangible and intangible fixed asset reconciliations;

b) Cash flow statements;

c) Key management compensation;

d) Third balance sheet;

e) Related party transactions between wholly owned group companies;

f) Impairment of assets; and

g) Financial instruments;

h) The effect of future accounting standards not yet adopted

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. The financial statements have been prepared on a going concern basis.

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

Notes to the financial statements

at 31 December 2015

2. Accounting policies (continued)

2.2 Revenue Recognition

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

2.3 Foreign currencies

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction.

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

2.4 Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

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

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

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

2.5 Interest income and expenses

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

2.6 Pensions

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

Notes to the financial statements

at 31 December 2015

2. Accounting policies (continued)

2.7 Cash at bank and in hand

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

2.8 Clients' deposits

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

2.9 Tangible fixed assets

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

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

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

2.10 Impairment

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

2.11 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

2.12 Trade and other debtors

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

3. Turnover and segmental reporting

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

The Company has taken advantage of the exemption from disclosing segmental information as this information is included within the consolidated financial statements of its parent undertaking, which are publicly available from its registered office as referred to in note 17 to these financial statements.

Notes to the financial statements

at 31 December 2015

4. Operating profit

This is stated after charging:

	2015	*2014*
	£000	*£000*
Losses on foreign exchange	11	45
Depreciation	6	1
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	62	64

5. Interest receivable

	2015	*2014*
	£000	*£000*
Interest receivable on bank deposits	19	16
	19	16

6. Interest payable

	2015	*2014*
	£000	*£000*
Interest payable on balances due to group companies	23	43
	23	43

7. Directors' remuneration

	2015	*2014*
	£000	*£000*
Directors' remuneration	258	109
Pension contribution	1	-
	259	109
Remuneration of highest paid director	220	70
Pension contribution	1	-
	221	70

Notes to the financial statements

at 31 December 2015

7. Directors' remuneration (continued)

Some of the directors of the Company are remunerated by other Tradition UK group companies or Compagnie Financière Tradition SA group companies and particulars of their remuneration are included within the financial statements of those relevant companies. Where disclosure is not made in the Compagnie Financiere Tradition SA annual report the estimated remuneration for services for the Company by the director's is included in the Directors remuneration total above.

None of the directors of the Company had outstanding loans with the Company as at 31 December 2015 or 31 December 2014.

8. Staff costs

Employment costs incurred by the Company (including directors) during the year were as follows:

	2015	*2014*
	£000	*£000*
Wages and salaries	872	836
National insurance contributions	80	75
Other pension, life assurance and staff benefits	19	33
	971	944

Average number of persons employed (including directors):

	2015	*2014*
	No.	*No.*
Administration	11	11

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost represents contributions payable by the Company to the plans. The pension cost is £8k (2014: £9k). There are no outstanding pension contributions at the year end (2014: £nil).

Notes to the financial statements

at 31 December 2015

9. Taxation

	2015 *£000*	*2014* *£000*
UK corporation tax charge – current year	16	23
Deferred tax (note 15)	1	1
Total tax charge	17	24

Reconciliation of the total tax charge

	2015 *£000*	*2014* *£000*
Profit on ordinary activities before tax	82	111
At average rate of corporation tax of 20.25% (2014: 21.50%)	17	24
Total tax charge as reported in statement of comprehensive income	17	24

10. Tangible fixed assets

	Office furniture and equipment *£000*	*Computer hardware* *£000*	*Total* *£000*
Cost:			
At 1 January 2015	2	50	52
Additions	-	22	22
At 31 December 2015	2	72	74
Depreciation:			
At 1 January 2015	2	50	52
Charge for the year	-	6	6
At 31 December 2015	2	56	58
Net book value:			
At 31 December 2015	-	16	16
At 31 December 2014	-	-	-

Notes to the financial statements

at 31 December 2015

11. Debtors

	2015	*2014*
	£000	*£000*
Trade debtors	516,612	672,424
Other debtors	10	7
Prepayments	38	36
Amounts due from group undertakings	41	302
Other taxation and social security	5	-
	516,706	672,769

12. Cash at bank and in hand

Cash and cash equivalents comprise the following at 31 December:

	2015	*2014*
	£000	*£000*
Cash at bank and on hand	10,141	8,881
Client money	11	2
Cash and cash equivalents	10,152	8,883

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

13. Creditors: amounts falling due within one year

	2015	*2014*
	£000	*£000*
Trade creditors	507,654	660,015
Bank Overdraft	8,842	11,548
Accruals and other creditors	208	108
Amounts due to group undertakings	4,921	6,208
Other taxes and social security	22	5
	521,647	677,884

Notes to the financial statements

at 31 December 2015

14. Creditors: amounts falling due after one year

	2015	*2014*
	£000	*£000*
Subordinated loans	-	1,400

The subordinated loans as at December 2014 represent amounts advanced by the parent undertaking Tradition Service Holding S.A. The balance represents two loans for £700k; the first loan carried interest based on UK 3 months LIBOR and the second loan at 5.5% p.a. Both loans were converted to share capital during 2015.

15. Deferred tax asset

	2015	*2014*
	£000	*£000*
Depreciation in excess of capital allowances	4	5
Asset at 1 January	5	6
Charge for the year	(1)	(1)
Asset at 31 December	4	5

Corporation tax rate reductions to 19% effective from 1 April 2017 and 18% effective from 1 April 2020 were enacted in November 2015. Deferred tax assets have been stated at the corporation tax rate of 18% (2014: 20%) on the basis that it is anticipated that the Company's deferred tax assets will unwind after 1 April 2020. On 16 March 2016 the UK Government announced that the UK corporation tax rate will be further reduced to 17% with effect from 1 April 2020. However, this change has not yet been substantively enacted, therefore has not been reflected in calculating the deferred tax assets.

16. Called up share capital

	2015	*2014*
	£000	*£000*
Authorised:		
10,000,000 ordinary shares of £1 each	10,000	10,000
Issued and fully paid:		
6,250,000 ordinary shares of £1 each (2014: 3,450,000 ordinary shares of £1 each)	6,250	3,450

The ordinary shareholders have one vote per share and participate equally in the event of the winding up of the Company.
Post Balance Sheet close, the Company has reduced its share capital from £6,250k to £5,150k with effect from 29th February 2016 following a written resolution passed by the directors.

Notes to the financial statements

at 31 December 2015

17. Parent undertaking

The Company's immediate parent undertaking is Tradition Service Holding S.A., a company registered in Switzerland. Tradition Service Holding S.A. is a subsidiary of Compagnie Financière Tradition SA which is also registered in Switzerland. Compagnie Financière Tradition SA has included the Company in its group financial statements, copies of which are publicly available. The Company's ultimate parent company and controlling party is Viel & Compagnie Finance SE, which is incorporated in France. Copies of its group financial statements, which include the Company, are publicly available.

18. Related party transactions

The Company has taken advantage of the exemption from disclosing transactions with related parties that are part of the Viel et Compagnie Finance SE group or investees of the group.

19. Financial risk management policies and objectives

The Company is primarily exposed to the following risks:

- Operational Risk;
- Credit Risk;
- Market Risk;
- Interest Rate Risk;
- Liquidity Risk.

Operational Risk

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

Credit Risk

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

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

Market Risk

Foreign Currency Risk

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

Notes to the financial statements

at 31 December 2015

19. Financial risk management policies and objectives (continued)

Interest Rate Risk

The Company's exposure to interest rate risk in the banking book is very limited since it does not conduct classical banking activity. The Company's exposure to interest rate risk arises from the possibility that changes in interest rates will affect the interest income or the net value of equity. However, the Company does not carry large interest bearing assets and/or liabilities on its balance sheet. Where interest rate bearing assets and liabilities exist, they are typically of short maturity (less than 3 months) and consequently this risk is marginal. Moreover, the bank pooling facility in place for the Tradition UK group enables bank balances to be effectively managed on a daily basis and restrict the need for overnight overdraft positions thus limiting any interest charges thereon.

Liquidity Risk

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

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

The Deputy Chief Financial Officer is responsible for the Company's liquidity management including the establishment and maintenance of systems and controls over the recording and disbursement of funds in accordance with Board approved bank mandates and the segregation of duties between the movement of funds and the recording thereof. A summary of the consolidated liquidity position of the Tradition UK group is prepared for and reviewed by the Deputy Chief Financial Officer daily.

Operational Liquidity

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

Transactional Liquidity

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

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

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

Notes to the financial statements

at 31 December 2015

19. Financial risk management policies and objectives (continued)

Liquidity Risk (continued)

Market Liquidity

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

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

20. First time adoption of FRS 101

These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101. For periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with UK GAAP. The date of transition to FRS 101 was 1 January 2014 (the transition date). Accordingly, the Company has prepared individual financial statements, which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes. This note explains the principal adjustments made by the Company in restating its UK GAAP balance sheet (to FRS 101 balance sheet) as at 1 January 2014 and 31 December 2014.

There is no UK GAAP to FRS 101 transition adjustments requiring the reconciliation of UK GAAP to FRS 101 financial statements. However, the presentation of certain account balances on the balance sheet has been revised to be better aligned with the requirements of FRS 101.

21. Country by Country Reporting

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

The legislation requires that Tradition London Group publish certain additional information to that already contained within this Annual Report

Entity	Tradition London Clearing Ltd 2015	Tradition London Clearing Ltd 2014
Nature of Activities	Inter-Dealer Broker	Inter-Dealer Broker
Geographic Location	UK	UK
	£'000's	£'000's
Turnover	3,415	3,740
Employees	11	11
Profit / (Loss) before Tax	82	111
Tax Paid	0	0

Notes to the financial statements

at 31 December 2015

21. Country by Country Reporting (continued)

Notes:

1. Tradition London Clearing Ltd is regulated by the Financial Conduct Authority (FCA) and subject to the requirement of CRD IV Article 89.
2. Tax Paid represents the amounts physically paid to HMRC. For the years 2014 & 2015 TLC has utilised tax losses surrendered from other Group companies and hence paid the tax value of these losses to the surrendering company rather than to HMRC.
3. There were no public subsidies received in either 2015 or 2014.