

Tradition London Clearing Limited

Strategic Report, Directors' Report and Statutory Financial Statements

31 December 2016

Registered No: 3633863

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General Information

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

Strategic Report

The directors present their Strategic Report for the year ended 31 December 2016.

Results and dividends

Tradition London Clearing Limited (the “Company”) recognised a loss for the year after taxation of £89k (2015: profit of £65k) as shown in the Statement of Comprehensive Income on page 8. The directors do not recommend paying a final dividend (2015: £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 £3,415k to £3,344k, a decrease of 2% and operating profit decreased from £86k to a loss of £124k, resulting in a post-tax loss for the year of £89k (2015: profit of £65k). 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 decreased from £5,215k to £5,126k after applying the loss after tax for the year. 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.

Principal risks and uncertainties

In June 2016 the United Kingdom held a referendum to determine whether Britain should exit the European Union (“Brexit”). The results were in favour of leaving. At the time of this report, MP’s had voted in favour of legislation paving the way for the Prime Minister to trigger the formal process of leaving the European Union, however the formal process has not yet commenced. The negotiation of terms and actual exit is expected to continue through to 2019. As significant uncertainty still exists around what the Brexit will actually mean for the UK financial market and the Company, this has been recorded on the risk register. The Tradition UK Board has also resolved to form a Brexit Committee to consider and debate the issues and these discussions will be shared with the Company.

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

By order of the board



T DeSaintOuen

Director

11 April 2017

Directors' Report

Registered No: 3633863

The directors present their Report for the year ended 31 December 2016.

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

W Wostyn

S Sterling (resigned 17 February 2016)

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

Directors' liability

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

Going concern

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

Disclosure of information to the auditor

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

Future developments

The Company will continue to provide 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.

Subsequent Events

There were no post balance sheet events.

Directors' Report

Auditors

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

By order of the board



T DeSaintOuen

Director

11 April 2017

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 6 - 7, is made by the directors to explain their responsibilities in relation to the preparation of the Directors' Report, Strategic Report and Financial Statements.

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

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

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

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

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

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

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

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

Independent auditors' report

to the members of Tradition London Clearing Limited

We have audited the financial statements of Tradition London Clearing Limited "The Company" for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. 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 FRS 101 "Reduced Disclosure Framework".

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 5, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Independent auditors' report

to the members of Tradition London Clearing Limited

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

11 April 2017

Statement of Comprehensive Income

for the year ended 31 December 2016

		2016	2015
	Notes	£000	£000
Turnover	3	3,344	3,415
Administrative expenses		(3,468)	(3,329)
Operating (loss) / profit	4	(124)	86
Interest receivable	5	14	19
Interest payable	6	(1)	(23)
(Loss) / Profit on ordinary activities before taxation		(111)	82
Tax on profit on ordinary activities	9	22	(17)
(Loss) / Profit on ordinary activities after taxation		(89)	65

The notes on pages 11 - 23 form part of these financial statements.

Balance Sheet

as at 31 December 2016

	Notes	2016 £000	2015 £000
Fixed assets			
Tangible fixed assets	10	8	16
Current assets			
Deferred tax	14	4	4
Corporation tax		22	-
Debtors	11	632,816	516,706
Cash at bank and in hand	12	11,306	10,152
		<u>644,148</u>	<u>526,862</u>
Current liabilities			
Creditors: amounts falling due within one year	13	(639,030)	(521,647)
Corporation tax		-	(16)
		<u>(639,030)</u>	<u>(521,663)</u>
Net current assets		<u>5,118</u>	<u>5,199</u>
Net assets		<u><u>5,126</u></u>	<u><u>5,215</u></u>
Capital and reserves			
Called up share capital	15	5,150	6,250
Profit and loss account		(24)	(1,035)
Shareholders' funds		<u><u>5,126</u></u>	<u><u>5,215</u></u>

The notes on pages 11 - 23 form part of these financial statements.

The financial statements were approved by the board of directors on 11 April 2017 and were signed on its behalf by:



T DeSaintOuen
Director

Statement of Changes in Equity

as at 31 December 2016

	<i>Share Capital £000</i>	<i>Retained Earnings £000</i>	<i>Total equity £000</i>
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
At 1 January 2016	6,250	(1,035)	5,215
Profit for the year	-	(89)	(89)
Share Capital Reduction	(1,100)	1,100	-
At 31 December 2016	5,150	(24)	5,126

The notes on pages 11 - 23 form part of these financial statements.

Notes to the financial statements

at 31 December 2016

1. Authorisation of financial statements

The financial statements of Tradition London Clearing Limited for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 10 April 2017, and the balance sheet was signed on the Board's behalf by T DeSaintOuen. The directors have the power to amend and reissue the financial statements. Tradition London Clearing Limited is a private limited company and is incorporated and domiciled in England.

2. Accounting policies

2.1 Significant accounting policies

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

2.2 Basis of preparation

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

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

- a) Comparatives for tangible and intangible fixed asset reconciliations;
- b) Cash flow statements;
- c) Key management compensation;
- d) Related party transactions between wholly owned group companies;
- e) Impairment of assets;
- f) Financial instruments; and
- g) 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 2016

2. Accounting policies (continued)

2.3 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.

2.4 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.

2.5 Income taxes

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

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.

2.6 Interest income and expenses

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

2.7 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 2016

2. Accounting policies (continued)

2.8 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 (refer to note 12).

2.9 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).

2.10 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

2.11 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.

2.12 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.

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

Notes to the financial statements

at 31 December 2016

4. Operating profit

This is stated after charging:

	2016 £000	2015 £000
(Gain)/Losses on foreign exchange	(33)	11
Depreciation	8	6
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	78	62
	<u>78</u>	<u>62</u>

5. Interest receivable

	2016 £000	2015 £000
Interest receivable on bank deposits	14	19
	<u>14</u>	<u>19</u>

6. Interest payable

	2016 £000	2015 £000
Interest payable on balances due to group companies	-	23
Bank interest payable	1	-
	<u>1</u>	<u>23</u>

7. Directors' remuneration

	2016 £000	2015 £000
Directors' remuneration	208	258
Pension contribution	1	1
	<u>209</u>	<u>259</u>
Remuneration of highest paid director	198	220
Pension contribution	1	1
	<u>199</u>	<u>221</u>

Notes to the financial statements

at 31 December 2016

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 Financière Tradition SA annual report the estimated remuneration for services for the Company by the director's is included in the Directors remuneration total above.

None of the directors of the Company had outstanding loans with the Company as at 31 December 2016 or 31 December 2015.

8. Staff costs

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

	2016 £000	2015 £000
Wages and salaries	806	872
National insurance contributions	92	80
Other pension, life assurance and staff benefits	39	19
	<u>937</u>	<u>971</u>

Average number of persons employed (including directors):

	2016 No.	2015 No.
Administration	<u>12</u>	<u>11</u>

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 £10k (2015: £8k). There are no outstanding pension contributions at the year-end (2015: £nil).

Notes to the financial statements

at 31 December 2016

9. Taxation

	2016 £000	2015 £000
UK corporation tax (credit)/charge – current year	(22)	16
Deferred tax movement (note 14)	-	1
Total tax (credit) / charge	(22)	17
Reconciliation of the total tax (credit) / charge		
	2016 £000	2015 £000
Profit on ordinary activities before tax	(111)	82
At average rate of corporation tax of 20% (2015: 20.25%)	(22)	17
Total tax (credit) / charge as reported in statement of comprehensive income	(22)	17

10. Tangible fixed assets

	Office furniture and equipment £000	Computer hardware £000	Total £000
Cost:			
At 1 January 2016	2	72	74
At 31 December 2016	2	72	74
Accumulated depreciation:			
At 1 January 2016	2	56	58
Charge for the year	-	8	8
At 31 December 2016	2	64	66
Net book value:			
At 31 December 2016	-	8	8
At 31 December 2015	-	16	16

Notes to the financial statements

at 31 December 2016

11. Debtors

	2016 £000	2015 £000
Trade debtors	632,785	516,612
Other debtors	3	10
Prepayments	26	38
Amounts due from group undertakings	-	41
Other taxation and social security	2	5
	<u>632,816</u>	<u>516,706</u>

12. Cash at bank and in hand

Cash and cash equivalents comprise the following at 31 December 2016:

	2016 £000	2015 £000
Cash at bank and on hand	11,298	10,141
Client money	8	11
	<u>11,306</u>	<u>10,152</u>

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

	2016 £000	2015 £000
Trade creditors	626,635	507,553
Bank Overdraft	5,726	8,842
Accruals and other creditors	329	208
Amounts due to group undertakings	6,211	4,921
Other taxes and social security	129	123
	<u>639,030</u>	<u>521,647</u>

Notes to the financial statements

at 31 December 2016

14. Deferred tax asset

	2016 £000	2015 £000
Depreciation in excess of capital allowances	4	4
Asset at 1 January	4	5
Charge for the year	(-)	(1)
Asset at 31 December	4	4

On 16 March 2016 the UK Government announced that the UK corporation tax rate will be reduced to 17% with effect from 1 April 2020. Deferred tax assets have been measured at 17% (2015: 18%) representing the rate at which the deferred tax balances are expected to unwind.

15. Called up share capital

	2016 £000	2015 £000
<i>Authorised:</i>		
10,000,000 ordinary shares of £1 each	10,000	10,000
<i>Issued and fully paid:</i>		
5,150,000 ordinary shares of £1 each (2015: 6,250,000 ordinary shares of £1 each)	5,150	6,250

The ordinary shareholders have one vote per share and participate equally in the event of the winding up of the Company. During the year the share capital was reduced by £1,100k and has been used to offset the carry forward losses in Retained Earnings, leaving no impact on overall Shareholders' Funds.

16. Parent undertaking

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

17. Related party transactions

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

Notes to the financial statements

at 31 December 2016

17. Related party transactions (continued)

<i>Related party</i>	<i>Amounts owed by related party £000</i>	<i>Amounts owed to related party £000</i>
Joint ventures		
2016	-	-
2015	-	-
Shareholder and associated companies		
2016	-	6,211
2015	41	4,921

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

Terms & Conditions

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

The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the ended 31 December 2016, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2015: £nil).

18. Financial risk management policies and objectives

The Company is primarily exposed to the following risks:

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

Operational Risk

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

Credit Risk

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

Notes to the financial statements

at 31 December 2016

18. Financial risk management policies and objectives (continued)

Credit risk (continued)

The Company assesses and manages the cash held with banks and the commission receivables from customers in order to assess and monitor any bad debts. Where recovery, of all or part of amounts due, is in doubt, a provision is set up so that balance-sheet fairly reflects current expected credit losses.

Oversight of the provision process is undertaken through the Credit Control Committee which also tracks the month to month credit and collections performance of its clients. The maximum credit risk exposure relating to financial assets is represented by carrying value of Total Assets as at balance sheet date.

Market Risk

Foreign Currency Risk

The Company's revenues are predominantly in GBP, EUR and USD whilst its cost base is predominantly in GBP. This exposes the Company to foreign currency risk where the settlement of transactions is made in a currency other than GBP. It is Company policy to monitor foreign currency bank balances daily and, in order to minimise such risk, sells down surplus foreign currency balances on a regular basis. Moreover the risk management function, applies a hedging policy to proactively reduce foreign currency risk across the balance sheet. An analysis has been performed for a reasonable possible movement of the USD and EUR against GBP, with all other variables held constant, on the Statement of Comprehensive Income and equity. The extent to which the Company was exposed to currency risk at 31 December 2016 on its non-trading monetary assets and liabilities, and forecast cash flows was not material.

The table below provided the analysis for the prior year only.

	<i>% Movement in Currency Rates</i>	<i>Effect on Net Profit £000</i>	<i>Effect on Equity £000</i>
2015			
Currency			
EUR	5%	6	6
USD	5%	(2)	(2)
EUR	(5%)	(6)	(6)
USD	(5%)	2	2

Interest Rate Risk

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

Notes to the financial statements

at 31 December 2016

18. Financial risk management policies and objectives (continued)

Liquidity Risk

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

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

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

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2016 and 2015 based on contractual undiscounted payments.

<i>Year Ended 31 December 2016</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-derivative Financial Liabilities				
Interest bearing loans & borrowings	5,726	-	-	5,726
Trade and other creditors	632,673	280	351	633,304
Total	638,399	280	351	639,030

<i>Year Ended 31 December 2015</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-derivative Financial Liabilities				
Interest bearing loans & borrowings	8,843	-	-	8,843
Trade and other creditors	512,093	248	479	512,820
Total	520,936	248	479	521,663

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.

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18. Financial risk management policies and objectives

Liquidity risk (continued)

The Company uses the services of a number of clearers who provide secured overdraft facilities without a formalised limit. The use of multiple clearers provides significantly more credit and constitutes efficient risk mitigation against the risk of one clearer withdrawing its credit lines or failing.

As the business includes matched principal transactions, failed trades are usually backed by collateral (cash or securities) which are pledged to the custodian to support the overdraft facility. A daily track is kept to monitor the surplus/deficit in the VaR value of collateral against clearer funding.

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

Market Liquidity

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

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

19. Capital Management

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

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

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20. 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 2016	Tradition London Clearing Ltd 2015
Nature of Activities	Inter-Dealer Broker	Inter-Dealer Broker
Geographic Location	UK	UK
	£'000's	£'000's
Turnover	3,344	3,415
Employees	12	11
(Loss) /Profit before Tax	(111)	82
Tax Paid	0	0

Notes:

1. Tradition London Clearing Ltd is regulated by the Financial Conduct Authority (FCA) and subject to the requirement of CRD IV Article 89.
2. Tax Paid represents the amounts physically paid to HMRC. For 2015 the company 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. For 2016 the company has surrendered its tax loss to other Group companies and received the tax value of these losses from the claimant companies.
3. There were no public subsidies received in either 2016 or 2015.