Company Registration No. 02101863 (England and Wales)

INTERACTIVE INVESTOR SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2019

COMPANY INFORMATION

Directors	Barry Bicknell Richard Wilson
Company number	02101863
Registered office	Exchange Court Duncombe Street Leeds LS1 4AX
Statutory Auditor	Deloitte LLP Statutory Auditor 1 City Square Leeds LS1 2AL

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report for Interactive Investor Services Limited ('the Company) for the year ended 31 December 2019.

Principal activities

The business of the Company is the provision of direct to consumer investment services in the UK. The Company is regulated by the Financial Conduct Authority.

Review of the business

The Company continued to go from strength to strength in 2019, achieving sustainable revenue and operating profit growth, maintaining robust capital and liquidity positions while also delivering on its strategic objectives.

Revenue for the year was £84.1m (2018: £70.9m) an increase of 19% on the prior period, driven by a combination of organic growth and the migration of ATS direct-to-consumer clients. Administrative expenses have increased to £61.3m (2018: £43.2m) due to investment in people, technology, and marketing, as well as costs associated with the acquisition and integration of the ATS business and other growth initiatives. In addition, as part of a simplification of the legal entity structure in the Company's parent group started during 2018 and completed in 2019, several companies in the group were wound up. Therefore, the Company's expenses in 2019 include costs migrated from other, now dormant, group companies.

This growth in revenue combined with the operational leverage inherent in our business model has resulted in adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA') £24.8m (2018: £25.8m), a reduction of 4% on the prior year. This was due to the investments made during the year and the migration of costs from other group companies as outlined above. Profit after tax was £9.9m (2018: £27.7), with profit after tax in the 2018 comparative impacted by the one-off recognition of a £14.4m deferred tax asset.

The quality of earnings continues to improve, in part a result of the new segmented pricing structure launched in June 2019. 37% (2018: 33%) of the Company's revenue is now from its monthly fees and covers 47% (2018: 49%) of cost of sales and administrative expenses. These fees are unaffected by trading volumes, stock market movements or interest rates and as a result, the Directors believe that this operating model will deliver profitability even in subdued trading conditions or in a period of near zero interest rates, whilst ensuring the Company is well positioned to deliver future growth. The Company is well capitalised with net assets of £101.8m (2018: £90.9m) and no external debt.

The Company's key non-financial metrics have also performed well. Net inflows of client assets onto the ii platform have more than doubled from last year to £1.7bn (2018: £0.8bn) and the number of new SIPP accounts has increased more than 30% year on year to over 25,000. As at 31st December 2019, the Company had assets under administration of over £30bn and over 300,000 clients (2018: £18bn and 280,000 clients).

During 2019 the Company delivered successfully the following notable strategic objectives which the directors believe have delivered a considerable increase in value for shareholders.

In June 2019, Interactive Investor Limited, the Company's parent company, completed the acquisition of Alliance Trust Savings Ltd ('ATS') from Alliance Trust Plc, bringing together the two largest fixed fee retail investment platforms.

STRATEGIC REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Following the acquisition, the direct-to-consumer segment of ATS was migrated onto the ii platform in October and in December 2019, welcoming around 47,000 clients to the benefits of improved choice, price plan and insight.

The Company has been very active on organic growth initiatives. During the year it relaunched its brand and increased significantly its investment in brand and marketing spend. In particular, the Company successfully introduced a new segmented pricing structure in June 2019, providing a choice of several different pricing structures for clients that best suit their needs.

Customer experience and satisfaction remains at the core of Interactive Investor's operations. The Interactive Investor Trustpilot rating closed the year at 4.5 (2018: 3.8), and the iOS App store rating has improved to 4.3 (2018: 4.0).

Future developments

The Company will continue to invest in technology in relation to the customer proposition and look for strategic business opportunities to enhance growth during the forthcoming year. This will include the new pricing structure announced during the period, as well as continuing the process of restructuring to optimise synergies in the combined business.

In early February 2020, the board of the Company's parent company, Interactive Investor Limited ('IIL'), announced the acquisition of Share plc, subject to regulatory approvals. This received the required approval from Share Plc shareholders on 8th April 2020. Share Plc serves over 300,000 customer accounts with assets under administration of over £6 billion and is highly complementary to the existing IIL Group. The directors of the IIL believe the acquisition will provide further scale and synergy benefits to support the required operating leverage and profitability needed for significant and sustained technology investment in customer experience and services. As a result of the transaction, segments of the Share plc business, including the direct to consumer business, are expected to migrate to the Company's platform.

While there remains uncertainty as to the impacts of Brexit and the COVID-19 pandemic on the UK economy, the Company's operational resilience combined with its financial strength make it very well placed to continue to trade profitably.

In response to the pandemic, the Company has prioritised the welfare of its employees, while maintaining operational service for its clients. Currently, 95% of employees are working from home and clients continue to have access to all of the services the Company normally provides.

The Company has considered its forecast operational, capital and liquidity positions in the event of severe but plausible stress scenarios, one of which now includes an extended and more disruptive pandemic scenario. The Company's forecasts show it to maintain sufficient capital and liquidity over a three year horizon. The Board considered in depth the impact of Covid-19 on the Company's going concern status and the relevant disclosures are set out on the Directors' report.

STRATEGIC REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Key Performance Indicators

The Directors use the following measures to judge performance:

	31 Dec 2019	31 Dec 2018
Revenue	£84,051,000	£70,845,000
Profit before taxation	£10,276,000	£16,834,000
Revenue growth	19%	83%
Revenue per client	£273	£226
Adjusted EBITDA	£24,784,000	£25,790,000
Total customers	331,280	305,777
Net AUA inflow	£1.69billion	£0.85billion

Total customers gives an indication of the Company's subscription fee revenue stream. Net inflows of assets under administration ('Net AUA inflow') is a measure of the net inflows and outflows arising from customer activity on the ii trading platform. Revenue per client is the average revenue earned per client. The adjusted EBITDA is presented to eliminate the impact of non-recurring exceptional expenses relating to acquisitions, disposals and integrations undertaken by the Company during the year. This enables analysis of the ongoing revenue and expenses of the Company, and transparent comparison of year on year performance.

The following adjustments were made during the year to arrive at Adjusted EBITDA:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Profit before taxation	10,276	16,834
Depreciation & Amortisation	5,006	2,325
Net finance (costs)/ income	192	(247)
Exceptional items	9,310	6,878
Adjusted EBITDA	24,784	25,790

s172 statement

The Directors are well aware of their duty under s.172 of the Companies Act 2006 to act in the way which 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 and, in doing so, to have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;

STRATEGIC REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The directors are committed to effective engagement with all of the Company's stakeholders. The directors and the Company's Committees regularly receive reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators and investors, which they take into account in their discussions and in their decision-making process under section 172.

The directors and the Company's Committees undertake deep dive reviews to further develop their understanding of key issues impacting all stakeholders. In addition to this, the directors seek to understand the interests and views of the Company's stakeholders by engaging with them directly as appropriate. Some of the ways in which the directors have engaged directly with stakeholders over the year are shown below.

Customers
Our customers are at the centre of what we do and the directors have sought to ensure that the customer's viewpoint is taken into account in its decision-making. The directors review strategy and monitor performance during the year with the aim of meeting customers' needs more effectively; receive regular competitor updates to understand the Company's competitive performance and its strengths and weaknesses as regards meeting customer needs; benchmark the Company's performance in relation to customers using independent user experience metrics.

During 2019, following insight sought and received from customers, we changed our pricing plans such as to provide increased choice for different customers and their various differing needs.

Employees
The growth of the Company as an organisation is heavily underpinned by the strength of our talent. We have built diverse and inclusive teams across technology, customer services, operations and central functions, and encourage collaboration with our regular town hall meetings and all staff calls. We have created two employee-led forums to voice opinions on areas that are central to our employee proposition: wellbeing and diversity & inclusion. In addition, we consulted with employees as to our office location strategy and, in particular, the selection of an alternative location in Leeds, set to be completed during 2020.

Autonomy and ownership are at the centre of our employee experience and we are building a learning portfolio to encourage our people to develop their personal and professional skills and grow with us. We are keen that our employer brand reflects how our people feel about working at the Company. Our engagement activity helps us continue to build our employee proposition, which will support in the acquisition of new talent to the business.

Regulators
As the Company is regulated by the FCA, proactive engagement with regulators is imperative, and the directors regularly meet with the Company's regulators while maintaining regular ongoing correspondence. In 2019, there was increased engagement not only with the FCA but also with the PRA, as a result of the acquisition of ATS by the IIL Group and by virtue of its being licensed as a bank.

STRATEGIC REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

The announcement in February 2020 of the acquisition of Share Plc by the IIL Group will mean a continued high level of interaction with regulators for 2020 and beyond.

Shareholders
The directors are committed to driving shareholder value and operating profit growth, while protecting shareholder investment through effective governance and risk management. The directors openly engage with the Company's shareholders and investors, some of whom sit on the board of the Company's parent Interactive Investor group, with regular communication of strategy and objectives, as well as performance. All shareholder feedback is properly considered and responded to.

Decision making
The needs and interests of key stakeholders, and the impact of strategic decisions on these stakeholders, is considered by the directors throughout the decision making process. Furthermore, the directors delegate governance and decision-making authority to certain key committees, including the people committee, customer committee, and client asset oversight committee, who have specific regard for the factors relevant to their respective stakeholders.

As examples of how the directors have had regard to the effect of the decisions taken by it on stakeholders, the acquisition of ATS by the IIL Group and the subsequent sale of its non-Direct to Consumer business segments to Embark are outlined below. The directors carefully weighed the benefits of the acquisition for investors, customers, employees and the Company against any impact on those stakeholders. The financial consequences of the acquisition were assessed by the directors and independently challenged by external advisers. The directors also considered the operational consequences of the decision and the resources needed to achieve the desired outcomes; this included meeting the expectations of our regulators. On balance, the directors considered that stakeholders benefited from the acquisition and any risks associated with it.

Principal risks and uncertainties

Risk management
The Company maintains a Risk Appetite Framework which includes a full suite of Risk Appetite Statements for all risk categories within its risk nomenclature. Ultimate accountability for setting Risk Appetite sits with the Directors. The Enterprise Risk function works closely with Executive members to communicate and embed risk appetite across the business, building a strong risk aware culture and informing decision making. A full suite of Key Risk Indicators ('KRIs') has been developed to allow for the timely and accurate identification of when the Company's risk exposures are nearing or breaching agreed appetite. The status of all KRIs are reported monthly, with a focus on any management actions required to manage any identified exposures appropriately. The underlying risks of the business are comprised of both 'bottom up' risks, which are identified, assessed and subsequently monitored through the Company's Risk and Control Self Assessment, and 'top down' risks which are developed through regular discussion between Directors and at Executive Committee meetings, and are typically more strategic in nature. The overall risk profile, incorporating both sets of risk information, is discussed on a regular basis with identified risk owners, and reported to the Directors and Executive Committee.

STRATEGIC REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Competition risk
Competitive pressure in the UK is an ongoing risk for the Company, which could result in it losing commission to key competitors. The Company manages this risk by remaining competitive through offering an excellent standard of service to its customers and a diverse range of products.

Operational risk
The Company is also exposed to Operational risk, being the risk that system or process failure could result in financial loss, regulatory breach or reputational damage, including risks arising as a result of cyber-attacks, data security, fraud and conduct. As the Company is regulated by the Financial Conduct Authority and under the scope of the Client Assets ('CASS') rules, this includes the risk of failure to adequately protect clients' assets.

The Company manages these risks through documented operational processes and controls, and strong governance and oversight from Risk, CASS and other board committees. The Company has a suite of policies that provide clear standards for the management of fraud and conduct risks, while cyber-attacks and data security is managed through the Company's information security team.

These risk mitigations have been brought to bear following the COVID-19 pandemic outbreak. The Company has utilised part of its BCP plan and enabled the majority of staff to work remotely in line with government guidelines. The Company has sought confirmation from suppliers of financial and operational continuity and maintains contingency plans in the event of any key supplier outages. The Company's operational services as provided to clients prior to the outbreak have continued to operate normally during the lockdown period.

Interest rate risk
Whilst the Company is exposed to interest rate risk this is mitigated through careful management of its cash portfolio and interest payable on its product range. This management is particularly relevant given the ongoing uncertainty over COVID-19 and any further impact on interest rates. These sensitivities are detailed in note 2. The Company has a diversified revenue stream and is not solely reliant on net interest as an income source. Management considers, therefore, that interest rate risk is adequately managed. In accordance with FCA regulations, the company stress tests interest rate risk on a quarterly basis against a 200 basis point (2%) parallel fall in interest rates. In the near zero interest rate environment this means assuming no interest income.

Credit risk
Credit risk is a risk area for the Company due to trading activity by clients. This is managed through offering individual trading limits which incorporate concentration limits on certain stocks and sectors.

STRATEGIC REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Market risk

Market risk is defined as the potential reduction in net income, or decrease in value of the company's balance sheet, arising from adverse market movements. Primarily, this risk arises from foreign exchange movements, as the Company deals with stock and holds cash in a number of currencies and therefore has a small exposure to movements in the currency exchange rates. The Treasury function manages this risk through the appropriate purchase and sale of currencies to match clients' trading requirements. Foreign exchange risk is calculated in accordance with the "Capital Requirements Directive IV" ("CRD IV"). The Company is not exposed to other market movement risks, such as commodity risk.

Pillar III

The Company adopted Basel II on 1 January 2008. The Basel II Framework consists of three pillars: Pillar I prescribes the risk-focused regulatory capital requirements, Pillar II deals with supervisory review, and Pillar III with market disclosure as a consequence. Pillar III disclosures can be found on the Group website (www.ii.co.uk). The regulatory capital position of the Company is included as an appendix to these accounts. Under "Prudential Sourcebook for Investment Firms" ("IFPRU"), companies are required to disclose their capital resource requirement in respect of trading book and non-trading book activities. The Company, however, does not have a trading book and as such no disclosures have been made in respect of market risk in respect of trading book activities.

Authorised and approved by order of the Board

B Bicknell
Director
24 April 2020

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and audited accounts for the year ended 31 December 2019. The registered number of the Company is 02101863. Principal risks and uncertainties, future developments, risk management objectives and policies, employee engagement and business relationships disclosures have been considered and included within the Strategic Report above.

Results and dividends

The income statement for the period is set out on page 18. No dividend was paid or proposed to the equity shareholders (2018: nil).

Directors

The directors of the Company during the year and up to the date of signing these financial statements were as follows:

Barry Bicknell
Richard Wilson

The company maintained throughout the year, and at the date of the financial statements, liability insurance for its directors. This is a qualifying provision for the purposes of the Companies Act 2006. During the year, the Company had in force an indemnity provision in favour of one or more directors of the Company, against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006.

Disabled employees

The Company gives full consideration to application 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. Employees are provided with information about the Company by means of the Company's intranet site. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the Company through bonuses, which are related to the Company's results.

Going concern

The directors have given careful consideration to the future prospects of the Company in deciding upon the appropriateness of the going concern basis of preparation. This consideration has included current budgets and applying stresses to those budgets reflecting what the board considers to be reasonable adverse developments.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

As part of this assessment, the directors have considered the Covid-19 pandemic and the emergency interest rate cuts announced by the Bank of England and in particular potential impacts on profitability, liquidity, working capital and regulatory capital, as well as the Company's operational resilience.

The Company has invoked business continuity plans in order to maintain its service and support to its customers throughout the pandemic while also maintaining the safety and well-being of staff. The majority of staff have been supplied with laptops and other resources to work from home in line with government guidelines. The Company has sought confirmation from suppliers of financial and operational continuity and maintains contingency plans in the event of any key supplier outages. The Company's operational services continued to operate normally during the lockdown period and its operating platform and other IT systems have demonstrated the required capacity to absorb the demands of customer trade volumes and calls so far in 2020.

The Company is well capitalised and retains a high level of cash and cash equivalents. It has also benefited from an increase in profits from trade volumes driven by market volatility in early 2020. Over the next 12 months, while there remains uncertainty as to the ongoing impact of the pandemic, the Company has a sufficiently diversified revenue stream such as not to be over reliant on interest income for profitability. The Company's fixed-fee business model ensures a level of revenue stability during material fluctuations in trading volumes.

The Company maintains a liquidity position in excess of internal and regulatory requirements.

Stress testing performed as part of the ICAAP considered Brexit and COVID-19 impacts and concluded that the Company could expect to retain sufficient regulatory capital and liquidity throughout a period of stress caused by the pandemic.

On this basis the board considers the Company to be a going concern.

Subsequent events

As stated in the Strategic Report, in February 2020, the boards of the Company's parent company, Interactive Investor Limited ('IIL'), and Share plc announced an agreement on terms of a recommended offer to combine the businesses. Under the offer, the IIL Group intends to acquire the entire issued and to be issued share capital of Share plc, subject to shareholder, regulatory and legal approvals.

Also as referenced in the Strategic Report, the COVID-19 pandemic situation began to affect the UK in 2020 and, in an effort to mitigate its economic impact, the Bank of England introduced emergency interest rate cuts in March. These events have been treated as non-adjusting post balance sheet events as outlined in note 25 Events after the Reporting Period.

There have been no other events between the period ended 31 December 2019 and the date of this report that would require disclosure in the financial statements of the Company.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Auditor

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

Directors' statement as to disclosure of information to auditor

The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Authorised and approved by order of the Board

B Bicknell

Director

24 April 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERACTIVE INVESTOR SERVICES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of Interactive Investor Services Limited ('the Company') 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 including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 26.

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).

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial reporting Council's ("FRC") 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERACTIVE INVESTOR SERVICES LIMITED CONTINUED

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the 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 respect of these matters.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERACTIVE INVESTOR SERVICES LIMITED CONTINUED

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERACTIVE INVESTOR SERVICES LIMITED CONTINUED

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.

Peter Birch FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

24 April 2020

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	31 Dec 2019 £'000	31 Dec 2018 £'000
Revenue	**5**	84,051	70,845
Cost of sales		(12,302)	(11,058)
Gross profit		71,749	59,787
Administrative expenses	**3, 4**	(61,281)	(43,200)
Operating profit	**3, 4**	10,468	16,587
Net finance (costs)/ income	**6**	(192)	247
Profit before taxation		10,276	16,834
Tax	**7**	(391)	10,870
Profit for the year		9,885	27,704

There is no further comprehensive income for the year ended 31 December 2019 or 31 December 2018, therefore a statement of other comprehensive income is not presented. All of the profit for the current and preceding years is derived from continuing operations.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

	Notes	31 Dec 2019 £'000	31 Dec 2018 £'000
Assets			
Non-current assets			
Intangible assets	9	9,245	1,908
Property, plant and equipment	10	3,262	3,235
Right-of-use assets	13	8,393	-
Deferred tax asset	18	8,255	7,923
		29,155	13,066
Current assets			
Deferred tax asset	18	2,475	2,947
Trade and other receivables	14	280,716	191,445
Cash and bank balances	12	48,166	62,260
		331,357	256,652
Total assets		360,512	269,718
Current liabilities			
Trade and other payables	16	247,054	175,953
Provisions	17	2,510	933
Contract liability	23	399	1,942
Lease liabilities	15	2,948	-
		252,911	178,828
Net current assets		78,446	77,824
Non-current liabilities			
Lease liabilities	15	5,806	-
Total liabilities		258,717	178,828
Net assets		101,795	90,890
Equity			
Share capital	20	288,117	288,117
Share based payment reserve	21	1,248	228
Accumulated losses		(187,570)	(197,455)
Total equity		101,795	90,890

The notes 1 to 26 form an integral part of these financial statements. The registered number of the Company is 02101863. Right-of-use assets comparatives have not been restated consistent with the current year which are presented under IFRS 16. The impact of the transition to IFRS16 is disclosed in note 1.5. The financial statements on pages 18 to 56

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

were approved and authorised for issue on 24 April 2020. They were signed by order of the Board by:

B Bicknell
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Issued capital	Share based payment reserve	Accumulated losses	Total
		£'000	£'000	£'000	£'000
Balance as at 1 Jan 2018		288,117	47	(225,159)	63,005
Profit for the year and total comprehensive income		-	-	27,704	27,704
Share based payments	21	-	181	-	181
Balance as at 31 Dec 2018		288,117	228	(197,455)	90,890
Balance as at 1 Jan 2019		288,117	228	(197,455)	90,890
Profit for the year and total comprehensive income		-	-	9,885	9,885
Share based payments	21	-	1,020	-	1,020
Balance as at 31 Dec 2019		288,117	1,248	(187,570)	101,795

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

Interactive Investor Services Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006, and is registered in England and Wales. The Registered Office is Exchange Court, Duncombe Street, Leeds LS1 4AX.

The nature of the Company's operations and its principal activities are set out in the strategic report on pages 3 to 9. These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Interactive Investor Limited. The group accounts of Interactive Investor Limited are available to the public and can be obtained as set out below.

1.2 BASIS OF PREPARATION

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payments, and presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets, related party transactions and remuneration to key management personnel.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Where relevant, equivalent disclosures have been given in the group accounts of Interactive Investor Limited, and copies of the group financial statements may be obtained from:

Interactive Investor Limited
201 Deansgate
Manchester
M3 3NW

The financial statements have been prepared on a historical cost basis. The financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000), except where otherwise indicated.

1.3 FUNCTIONAL CURRENCY

The financial statements are presented in sterling which is also the functional currency of the Company. Transactions in foreign currencies are initially recorded by the entity at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the income statement.

1.4 GOING CONCERN

The directors have given careful consideration to the future prospects of the Company in deciding upon the appropriateness of the going concern basis of preparation. This consideration has included current budgets and applying stresses to those budgets reflecting what the board considers to be reasonable adverse developments. These include consideration of the impact of Brexit and of the COVID-19 pandemic. As out lined in the Directors' Report, this analysis considered the Company's capital, liquidity and operational resilience and has concluded that the Company maintains sufficient capital and liquidity in order to meet capital requirements and liabilities as they fall due, over the period of assessment. On this basis the board considers the business to be a going concern.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

1.5 NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT YEAR

Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach, measuring assets at amounts equal to their associated liabilities adjusted for accruals and prepayments.

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company as carried out an implementation review. This has identified one IT contract entered into after 1 January 2019 that falls within the scope of IFRS 16 that would not have been treated as a lease under IAS 17.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'administrative expenses' in the Income Statement.

(ii) Former finance leases

The Company does not have any finance leases.

(c) Financial impact of the initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 3%.

The following table shows the operating lease commitments as at 31 December 2018 subject to the initial application of IFRS 16, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Impact on retained earnings as at 1 January 2019

	£'000
Operating lease commitments at 31 December 2018	10,064
Effect of discounting the above amounts	(925)
Lease liabilities recognised at 1 January 2019	9,139

The Company has recognised £9,575,000 of right-of-use assets and £9,139,000 of lease liabilities upon transition to IFRS 16. The difference of £436,000 relates to re-classification of prepayments and leasehold improvements.

1.6 REVENUE

Revenue represents the amounts (excluding value added tax) derived from trading transactions, account fees, treasury income and advertising.

Point in time revenue is derived from the following types of transactions: commission from the sale of unit trusts and ISAs, equity, derivative and FX trades. All such revenue is billed and recognised as revenue in the period that the transaction occurs i.e. the performance obligation is fulfilled at the point in time of the transaction. Treasury interest is recognised as interest accrues over time.

Account fee revenue represents both custody services that has performance obligations that are fulfilled over time and an element where the performance obligation is fulfilled at the point in time of the transaction via a trading credit. Consequently, as outlined in note 2, the application of IFRS 15 "Revenue from Contracts with Customers" requires allocation of turnover from account fees between transaction-related revenue and global custody services.

Treasury income is earned over time on client money balances placed on deposit with banking counterparties. Advertising revenue is earned in the form of point in time sales for online and print advertising on the Company website.

All revenue is derived from the continuing operations of the business within the UK. The directors consider that the Company operates in a single business unit and geographical segment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

1.7 LEASES

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

1.8 FIXED ASSET INVESTMENTS

Investments in subsidiaries are stated at cost less provision for impairment.

1.9 INTANGIBLE ASSETS

Internally developed software

Internally developed software is stated at cost, net of accumulated amortisation and accumulated impairment losses. Such costs include those incurred in improving the brokerage platform. It is assumed that these enhancements provide benefit over a period of time and as such these costs are amortised over a period of 3 years. Amortisation of the asset begins when development is complete and the asset is available for use, and is charged to administrative expenses within the Income Statement. Costs associated with maintaining software are recognised as an expense when incurred.

Individual projects, are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

An impairment review is performed when management identify an indication that an asset may be impaired. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment and reversal of impairment is an accounting judgement, and impairment reviews are performed as outlined in the significant accounting judgements section.

Purchased intangible assets

Purchased books of client records is stated at cost which was deemed to be their fair value as at the acquisition date less amortisation. Intangible assets are amortised over 7-10 years on a straight line basis given past knowledge of similar acquisitions.

Externally purchased software is amortised over 3 years on a straight line basis, based on estimated useful lives of the assets. Amortisation is charged to administrative expenses within the Income Statement.

1.10 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Such costs include the cost of replacing major parts of the property, plant and equipment. All other repairs and maintenance costs are recognised in the income statement as incurred.

Depreciation is provided on property, plant and equipment so as to write off the cost, less any estimated residual value, over their expected useful economic life. Property, plant and equipment are tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- Are expected to be used during more than one period.

The nature of assets held includes leasehold improvements, fixtures and fittings and computer equipment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Depreciation is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

• Leasehold improvements	over 7 years
• Fixtures, fittings & office equipment	over 3-5 years
• Computer equipment	over 3-5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An impairment review is performed when management identify an indication that an asset may be impaired. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment and reversal of impairment is an accounting judgement, and impairment reviews are performed as outlined in the significant accounting judgements section above.

1.11 OPERATING LEASES IN 2018

In the prior year, rentals payable under operating leases are charged against income on a straight line basis over the lease term in accordance with IAS 17. In the current year the Company applied IFRS 16 (see note 1.5)

1.12 PENSIONS

The Company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable. The scheme funds are held separately from those of the Company in an independently administered fund.

1.13 PROVISIONS

Provisions are recognised when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the entity expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

1.14 TAXATION

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

1.15 DEFERRED TAXATION

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the group. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses. Current and deferred tax relating to items recognised directly in equity is also recognised in equity and not in the income statement.

1.16 INTEREST

Interest income is accrued on a time-apportioned basis, by reference to interest rates receivable from banks and other institutions.

1.17 EXCEPTIONAL ITEMS

Items which are exceptional, being material in terms of size and/or nature, are presented separately from underlying business performance for analysis within the Company's strategic report. This enables analysis of the ongoing revenue and expenses of the Company, and transparent comparison of year on year performance.

1.18 FINANCIAL ASSETS

Financial assets are initially measured at fair value. The Company's financial assets include cash and short-term deposits, trade and other receivables, payments due from clients and payments due from market:

Financial assets held at amortised cost

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

financial assets. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost. The Company does not hold any financial assets that meet the criteria for treatment as fair value through other comprehensive income or fair value through profit or loss. Therefore, all financial assets held by the Company are measured at amortised cost.

Cash

Cash balances comprise cash on instant access. The Company also holds money on behalf of clients in accordance with the Client Money Rules of the FCA. This client money represents balances which are not held in respect of the settlement of transactions (i.e. free money). The client money is not shown on the face of the balance sheet as the Company is not beneficially entitled thereto. Disclosure of the amounts held is made in note 12. Interest earned on client money balances is included within revenue as Treasury income.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on trade receivables and contract assets.

In accordance with IFRS 9, the Company applies the 'simplified approach' in calculating expected credit losses from trade receivables. The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Company has identified appropriate groupings and segments of trade receivables as follows:

- Amounts due from market maker counterparties;
- Amounts due from clients in respect of brokerage commissions;
- Amounts due from clients in respect of account fees; and
- Advertising revenue.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

The Company writes off a trade receivable when there is information indicating that there is no realistic prospect of recovery. For amounts due from clients in respect of brokerage commissions, the loss allowance is determined on an individual basis, using historic analysis on losses and recoverability of financial assets to determine an estimate for expected credit losses. As the Company restricts clients from trading without cleared funds this minimises the level of historical losses experienced by the Company.

Amounts due from market maker counterparties are not written off by the Company, as there has historically been no issues in recovering these amounts from market makers and no history of losses.

Amounts due from clients in respect of account fees and advertising revenue are written off when, on individual assessment, the Company determines that there is no realistic prospect of recovery. Factors which determine this assessment include whether a client has cash in their account, or holds stock (which in line with contractual obligations may be sold by the Company to recover debt), or whether an advertising customer remains active and engaged with the Company on an ongoing basis. Therefore, expected credit losses on trade receivables for amounts due from clients in respect of account fees, and advertising revenue are estimated using a provision matrix by reference to past default experience.

De-recognition of financial assets.

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial asset (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

1.19 FINANCIAL LIABILITIES

All financial liabilities are recognised initially at fair value and, in the case of lease liabilities, carried at amortised cost. This includes directly attributable transaction costs. The Company's financial liabilities include trade and other payables, payments due to clients, payments due to market and lease liabilities. The subsequent measurement of financial liabilities depends on their classification as follows:

Trade and other payables

Trade and other payables are stated at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Payments due to clients and market

Payments due to clients consist of the balances received as a result of the client selling stock or application of corporate actions or dividends. All bargains entered into on behalf of clients are recorded in the financial statements on the date of the transaction.

Payments due to market consist of the amounts due to counterparties that are due to settle against delivery of stock and are shown gross of charges. All bargains entered into on behalf of clients are recorded in the financial statements on the date of the transaction

De-recognition of financial liabilities

A financial liability is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

1.20 CONTRACT LIABILITIES

Following the application of IFRS 15 contract liabilities arise as a result of trading credits received with fees paid by every client. This allows the client to offset future commission payable when trading. The liability is calculated based on historical data giving the proportion of trading credits being used.

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, previously described, 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 Company has made critical accounting judgements in relation to the following matters:

Exceptional items

Exceptional items are those items that are required to be separately disclosed by virtue of their size or incidence or have been separately disclosed within the strategic report, in order

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

to improve a reader's understanding of the financial statements. Consideration of what should be included as exceptional requires judgement to be applied. Exceptional items are considered to be ones which are material and outside of the normal operating practice of the Company.

Revenue from Contracts with Customers

Revenue from customers' account fees has separate "performance obligations." Under IFRS 15 "Revenue from Contracts with Customers", revenue from these fees should only be recognised when the separate "performance obligations" of a contract or agreement are met. With regard to account fee income, these performance obligations have been identified by management as:

1. The provision of global custody services in respect of customers' assets; and
2. Brokerage services in the form of trading credits given to customers.

The allocation of revenue between the respective performance obligations requires judgement, as the transaction price covers both global custody and brokerage services with no breakdown of the charges in contracts with customers. By using historical information to identify the population of customers who are not using any trading credits (i.e. those who are exclusively paying for global custody services), and the proportion of trading credits used by the remaining population of customers, an allocation of 13.7% of customers' account fees has been determined by Management based on the historic customer behaviour to be relating to brokerage services. This allocation is deferred and recognised either when trading credits are used or when they expire, whichever occurs sooner, with the remainder of the revenue recognised on a straight line basis across the period to which the charge relates.

In accounting for the following matters the Company has had to use judgement based upon best estimates of unknown future events, identified as the key sources of estimation uncertainty:

Deferred Tax Asset

Under IAS 12 "Income Taxes", deferred tax assets may only be recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Therefore, the estimated future utilisation of deferred tax assets and allocation between current and non-current assets has been calculated with reference to forecast taxable profits for the medium term future. These forecasts include judgements and assumptions concerning client numbers and trading volumes, cash balances and interest yields, and costs incurred by the business. These forecasts are most sensitive to changes in interest rates, driven predominantly by UK base rates as set by the Bank of England. As outlined in note 25 (Events After the Reporting Period), the Bank of England introduced emergency interest cuts in March 2020. A 0.50% reduction in annual average market interest rates available would lead to a corresponding £12,500,000 decrease in Treasury Revenue.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

However, the Company has a diversified revenue stream and is not solely reliant on Treasury Revenue as an income source. Furthermore, economic uncertainty arising from, or resulting in, a reduction in interest rates, can lead to market volatility and an increase in trading and FX revenues for the Company.

3 PROFIT BEFORE TAX

Profit before tax is stated after charging:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	252	135
Audit-related assurance services	115	85
Amortisation of intangible assets	909	830
Depreciation of property, plant and equipment	1,573	1,495
Depreciation of right-of-use assets	2,524	-
Impairment of right-of-use assets	56	-
Discount unwind	286	-
Operating lease rentals: Land and buildings	-	1,123

4 DIRECTORS' AND EMPLOYEES' COSTS

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Salaries	22,865	19,647
Social security costs	1,795	1,390
Pension costs	1,166	895
	25,826	21,932
Average monthly number employed (including executive directors)		
Operating and support functions	399	337
Administrative functions	47	45
	446	382

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Directors' emoluments (excluding pension contributions)	1,105	771
Pension contributions	7	29

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Emoluments of the highest paid director	638	438
Pension contributions of the highest paid director	-	11

5 REVENUE

The Company derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major product lines.

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Trading transactions	24,090	28,179
Account fees	31,139	23,502
Treasury income	28,027	18,526
Advertising revenue	795	638
	84,051	70,845

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

6 NET FINANCE (COSTS)/ INCOME

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Interest receivable from customers	161	-
Interest receivable from banks and other institutions	344	421
Interest payable to customers	-	(22)
Interest payable to banks and other institutions	(411)	(152)
Interest on lease liabilities	(286)	-
	(192)	247

Interest payable to banks and other institutions arises due to the Company paying interest on deposits denominated in Euros.

7 TAX

Tax charge / (credit) in the statement of comprehensive income

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Current tax		
Current year	253	-
	253	-
Deferred tax		
Origination and reversal of timing differences	2,472	(12,148)
Adjustment in respect of prior periods	(2,089)	-
Effect of changes in tax rates	(245)	1,278
	138	(10,870)
Total tax charge/ (credit)	391	(10,870)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Reconciliation of the effective tax rate

Factors affecting the tax charge for the year		
Profit before taxation	10,276	16,934
Profit before taxation multiplied by the effective rate of UK corporation tax of 19% (2018: 19%)	1,952	3,217
Effects of:		
Adjustments in respect of prior years	(2,089)	-
Expenses not deductible	773	130
Tax rate changes	(245)	1,279
Effects of group relief/ other relief	-	(1,058)
Deferred tax recognised in period	-	(14,438)
	(1,561)	(14,087)
Total tax charge/ (credit)	391	(10,870)

The applicable UK corporation tax rate is 19% for the year (2018: 19%).

The Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at a rate of 17%. If the amended tax rate had been used, the deferred tax asset would have been £1,262,000 higher.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

8 EXCEPTIONAL ITEMS

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Transaction and integration costs	9,310	6,878
	9,310	6,878

Transaction and integration costs include staff costs, professional and consultancy, and contract termination costs relating to the acquisitions and disposals undertaken by the IIL Group.

9 INTANGIBLE FIXED ASSETS

	Computer software	Internally developed software	Acquired Customer Lists	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 Jan 2019	25,053	29,168	25,860	80,081
Additions	1,265	81	6,900	8,246
At 31 Dec 2019	26,318	29,249	32,760	88,327
Amortisation				
At 1 Jan 2019	24,478	29,021	24,674	78,173
Charge for the year	607	25	277	909
At 31 Dec 2019	25,085	29,046	24,951	79,082
Net book value				
At 31 Dec 2019	1,233	203	7,809	9,245
At 1 Jan 2019	575	147	1,186	1,908

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

During the year, the Company acquired the direct to consumer customer list, and associated customer-related assets and liabilities, of Alliance Trust Savings Limited, a fellow subsidiary of the Interactive Investor Limited Group (acquired on 28 June 2019). Consideration of £6,900,000 was paid subsequent to acquisition, and this gave rise to an identifiable intangible asset, being the customer list acquired which is being amortised over 7 years.

10 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve-ments	Fixtures, fittings & office equipment	Computer equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 Jan 2019	4,990	444	9,942	15,376
Reclassification of Right-of-use assets	(933)	-	-	(933)
At 1 Jan 2019 re-stated	4,057	444	9,942	14,443
Additions	1,270	15	512	1,797
At 31 Dec 2019	5,327	459	10,454	16,240
Depreciation				
At 1 Jan 2019	2,916	441	8,784	12,141
Reclassification of Right-of-use assets	(736)	-	-	(736)
At 1 Jan 2019 re-stated	2,180	441	8,784	11,405
Charge for the year	698	2	873	1,573
At 31 Dec 2019	2,878	443	9,657	12,978
Net book value				
At 31 Dec 2019	2,449	16	797	3,262
At 1 Jan 2019	2,074	3	1,158	3,235

Following the implementation of IFRS 16 Leases on 1 January 2019, certain provisions for dilapidations costs on operating leases, previously capitalised as leasehold improvements under IAS 16 Property, Plant and Equipment, were reclassified as Right-of-use assets as described in note 1.5 and note 1.7.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

11 FIXED ASSET INVESTMENTS

Details of the investments held by the Company are as follows:

Company	Country of incorporation	Holding	%	Share capital and reserves
Investor Nominees Ltd	England and Wales	Ordinary	100	£1
Interactive Investor Services Nominees Ltd	England and Wales	Ordinary	100	£2
Investor SIPP Trustees Ltd	England and Wales	Ordinary	100	£1

Company	Principal Activity	Registered Office
Investor Nominees Ltd	Nominee company	201 Deansgate Manchester M3 3NW
Interactive Investor Services Nominees Ltd	Nominee company	Exchange Court Duncombe Street Leeds LS1 4AX
Investor SIPP Trustees Ltd	SIPP bare trustee company	201 Deansgate Manchester M3 3NW

12 CASH

	31 Dec 2019 £'000	31 Dec 2018 £'000
Company balances	48,166	62,260

Client settlement balances are segregated from the Company's cash balances in accordance with the requirements of the Financial Conduct Authority. As at 31 December 2019 the Company held bank deposits totalling £3,397,615,000 (2018: £2,325,042,000) on behalf of clients that are excluded from the balance sheet.

Management consider the fair value to be equal to the carrying value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

13 RIGHT OF USE ASSETS

	Buildings	Computer equipment	Total
	£'000	£'000	£'000
Cost			
At 1 Jan 2019	-	-	-
IFRS 16 restatement	9,378	-	9,378
Reclassification of Right-of-use assets	197	-	197
At 1 Jan 2019 - Restated	9,575	-	9,575
Additions	223	1,175	1,398
At 31 Dec 2019	9,798	1,175	10,973
Depreciation			
At 1 Jan 2019	-	-	-
Charge for the year	2,289	235	2,524
Impairment	56	-	56
At 31 Dec 2019	2,345	235	2,580
Net book value			
At 31 Dec 2019	7,453	940	8,393
At 1 Jan 2019	-	-	-

Following the implementation of IFRS 16 Leases on 1 January 2019, certain provisions for dilapidations costs on operating leases, previously capitalised as leasehold improvements under IAS 16 Property, Plant and Equipment, were reclassified as Right-of-use assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

14 TRADE AND OTHER RECEIVABLES

	31 Dec 2019 £'000	31 Dec 2018 £'000
Amounts falling due within one year:		
Amounts due from counterparties and clients	255,577	185,232
Amounts due from group undertakings	17,259	55
Prepayments and accrued income	6,294	5,093
Other receivables	1,586	1,065
	280,716	191,445

Amounts due from counterparties and clients include payments due from clients and payments due from market. Payments due from clients consist of the balances due as a result of the client purchasing stock or the application of fees. These balances sweep to their income or debt ledger upon settlement date. All bargains entered into on behalf of clients are recorded in the financial statements on the date of the transaction. Payments due from market consist of the amounts due from counterparties that are due to settle against delivery of stock and are shown gross. All bargains entered into on behalf of clients are recorded in the financial statements on the date of the transaction.

Amounts due from group undertakings arise as a result of the Company's role in its parent group to hold cash on behalf of other group undertakings.

The carrying value of financial assets (inclusive of cash) is £322,683,000 (2018: £253,705,000).

	Total £'000	Not Due £'000	1-30 Days £'000	31-60 Days £'000	61-90 Days £'000	91+ Days £'000
At 31 Dec 2019	255,577	252,868	2,018	45	318	327
At 31 Dec 2018	185,232	180,844	3,611	28	23	726

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Movement in bad debt provisions during the year are set out as follows:

	£'000
At 1 January 2019	3,218
Arising during the period	3,261
Utilised	(2,371)
Unused amounts reversed during the period	(1,307)
At 31 December 2019	2,801

As outlined in note 1.18, expected credit losses on trade receivables for amounts due from clients in respect of account fees, and advertising revenue are estimated using a provision matrix by reference to past default experience. As at 31 December 2019, the expected credit loss allowance was as follows:

2019

	0 days £'000	1-30 days £'000	31-60 days £'000	61-90 days £'000	>90 days £'000	Total £'000
Balances	0	552	505	399	2,422	3,879
Expected credit loss rate	0%	48%	49%	56%	68%	62%
Expected credit loss allowance	0	265	247	222	1,654	2,389

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

2018

	0 days **£'000**	**1-30 days** **£'000**	**31-60 days** **£'000**	**61-90 days** **£'000**	**>90 days** **£'000**	**Total** **£'000**
Balances	0	15	34	779	1,066	1,888
Expected credit loss rate	0%	37%	38%	33%	38%	36%
Expected credit loss allowance	0	6	13	258	403	680

Expected credit loss allowances at 31 December 2018 are impacted by a one-off debt write - off exercise which substantially reduced the volume of outstanding balances. The directors envisage that future economic conditions may result in changes to the recoverability of account fee receivables, as adverse market movements increase the Company's exposure to account fee debt. A 5% (2018: 5%) increase to the historic loss rate has been applied to allow for this uncertainty.

15 LEASE LIABILITIES

	31 Dec 2019 **£'000**
Maturity analysis:	
Year 1	2,948
Year 2	1,042
Year 3	1,073
Year 4	1,105
Year 5	860
Onwards	1,726
	8,754
Analysed as:	
Non-current	5,806
Current	2,948
	8,754

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

	31 Dec 2019 £'000
Lease liability movement	
Opening balance	9,139
Lease contract added in year	1,175
Lease payments	(1,846)
Discount unwind	286
	8,754

16 TRADE AND OTHER PAYABLES

	31 Dec 2019 £'000	31 Dec 2018 £'000
Amounts falling due within one year:		
Amounts due to counterparties and clients	236,700	167,424
Amounts owed to group undertakings	-	2
Accruals and deferred income	7,343	6,554
Other creditors	3,011	1,973
	247,054	175,953

Amounts due to counterparties and clients are non-interest bearing and are normally settled within 21 days, in line with the contractual settlement date of client and counterparty trades. Other payables are non-interest bearing and are normally settled within 30 day payment terms. The carrying value of financial liabilities is £247,054,000 (2018: £175,953,000).

17 PROVISIONS

The movement in provisions during the year ended 31 December 2019 is as follows:

	Dilapidations provisions	Other provisions	Total
At 1 January 2019	933	-	933
Arising during the year	613	930	1,543
Unwinding of discount	34	-	34
At 31 December 2019	1,580	930	2,510

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

The dilapidation provisions are expected to be utilised over the life of the respective operating leases, with estimates made as to the amount likely to be incurred. Other provisions are expected to be utilised within a year as the events to which they relate occur.

18 DEFERRED TAX

The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior reporting period.

	Fixed assets	Temporary differences trading	Tax losses	Total
	£'000	£'000	£'000	£'000
Balance as at 1 Jan 2019	(6,426)	(1)	(4,443)	(10,870)
Charge to profit or loss	1,270	-	1,204	2,474
Rate change	(134)	-	(111)	(245)
Adjustment in respect of prior periods	-	-	(2,089)	(2,089)
Balance as at 31 Dec 2019	**(5,290)**	**(1)**	**(5,439)**	**(10,730)**

Analysed as:	
Non-current	(8,255)
Current	(2,475)
	(10,730)

19 PENSION COMMITMENTS

The Group operates a defined contribution pension scheme, which is externally funded and covers all eligible staff employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. Pension contributions of £1,166,000 have been recognised in the income statement for the year to 31 December 2019 (2018 : £895,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

20 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	£'000	£'000	£'000	£'000
Ordinary shares of £1 each	1,000,000	1,000,000	288,117	288,117

21 SHARE BASED PAYMENTS

The Interactive Investor Limited Group operates a share-based compensation plan, under which the group receives services from employees as consideration for equity instruments of the parent entity, Antler Holdco Limited. This is recognised as an equity-settled share-based payment transaction in accordance with IFRS 2 'Share-Based Payment.'

In accordance with the terms of the plan, employees purchase shares of Antler Holdco Limited. These shares are to be redeemed at the end of a vesting period for a price to be determined based on the valuation of the Group at that date, provided initial equity value exceeds a set Internal Rate of Return threshold. Redemption of the shares is conditional on employees remaining employed by the Group at the end of the vesting period, however the shares can be repurchased by Antler Holdco Limited at an agreed price upon the employee leaving.

4,415 shares were issued during the year (2018: 31,700), with a weighted average fair value of £30.80 per share (2018: £250.13). The value of employee equity settled share based payments are calculated at fair value at the grant date using a Black-Scholes option pricing model. Vesting conditions, which comprise service conditions and performance conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the vesting period. Where an award of share based payments is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

The expense recognised for employee services received during the year is shown in the following table:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Expense arising from:		
Equity-settled share based payment transactions	1,020	181
	1,020	181

Details of the shares outstanding during the year are as follows:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Outstanding 1 January 2019	77,400	45,700
Granted during the year	4,415	31,700
Forfeited during the year	-	-
Outstanding at 31 December 2019	81,815	77,400

Key inputs to the Black-Scholes option pricing model were as follows:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Weighted average share price	£36.74	£38.74
Discount for Lack of Marketability	20.0%	10.0%
Expected volatility	27.7%	30.0%
Expected life	3.1 years	4.5 years
Risk free rate	0.74%	0.86%
Dividend yield	0.0%	0.0%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

22 CAPITAL MANAGEMENT

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision. The Company has complied with any capital requirements throughout the current year and the prior year.

The Company is classified as a €125k limited licence IFPRU firm for the purposes of the Capital Requirements Directive ('CRD'). Capital is derived from Company profit and investment from the Parent Company whilst its requirement is determined by its fixed cost base. The Company operates a capital/risk committee which oversees adequacy on a monthly basis. This committee also determines the amount of capital that management believe is appropriate for this Company.

The primary objectives of the Company's capital management policies are to ensure that it complies with the externally imposed capital requirements and that it maintains healthy capital ratios in order to support the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

23 CONTRACT LIABILITIES

	31 Dec 2019 £'000	31 Dec 2018 £'000
Arising from customer trading credits	399	1,942

A contract liability arises in respect of trading credits in that the account fee paid by every customer allows them to use the amount to offset future commission payable by the customer when trading. The liability is calculated based on historical data giving the proportion of trading credits being used. There were no contract liabilities at 1 January 2018 as the trading credit allowance only started following the implementation of a new fee structure to customers at the start of 2018.

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise trade and other payables, and payments due to client and market positions. The main purpose of these financial liabilities is to finance the Company's operations and to support the open trading positions of the underlying clients. The Company has trade and other receivables and cash that arrive directly from its operations. The Company also maintains due to client and market positions, again to support the open trading positions of the underlying clients.

The Company is exposed to market risk, concentration risk, interest rate risk and credit risk.

The Company's senior management oversees the management of these risks and is supported by an Internal Capital Adequacy Assessment Process (ICAAP) that advises on financial risks and the appropriate financial risk governance framework for the Company. The ICAAP Committee provides assurance to the Company's senior management that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Interactive Investor group's (the "Group") policies and Group's risk appetite. It is the Company's policy that no trading in derivatives shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices or the Group's ability to settle trades in a timely manner on behalf of its clients. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Market risk is managed through operational controls to ensure trades are carried out in a timely and accurate manner. Currency, commodity and other price risks are not material to the Group.

Concentration risk

The Group is exposed to concentration risk on its treasury and custodian services. The Group ensures that this risk is managed through carrying out full due diligence on all new counterparties, that they are regularly monitored, and that cash is placed in a diverse range of financial institutions approved by the board. Concentration risk affects the cash and the due to and from market positions on the statement of financial position and is deemed to have an immaterial cost value to the entity.

Interest rate risk

Interest rate risk arises due to reduction in interest earned on funds deposited within the portfolio. Interest rate risk is mitigated through careful management of its cash portfolio and interest payable on its product range. The Group has a diversified revenue stream and is not solely reliant on net interest as an income source. Management considers, therefore, that interest rate risk is adequately managed. In accordance with FCA regulations, the Company stress tests interest rate risk on a quarterly basis against a 200 basis point (2%) parallel fall in interest rates. In the current low interest rate environment this means assuming no interest income. In the current year, a 0.25% fall in interest rates would have resulted in a £7,470,000 reduction in revenue (2018: £5,261,000). The level of interest paid to Clients is monitored by net interest income forecasting which is presented to Senior Management where the results are assessed.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

The Group is exposed to credit risks on its treasury, custodian and partner services. This also represents an exposure to liquidity risk, being the risk that cash requirements exceed the available sources of cash to the Group. The Group ensures that full due diligence is carried out on all new counterparties and that they are regularly monitored. Trade receivables and payables are on standard payment terms, thereby reducing long term liquidity risk.

The table below shows the maximum exposure to credit risk for balance sheet components:

	Total
	£'000
Cash and short-term deposits	48,166
Trade and other receivables	280,716
	328,882

25 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year end, the boards of the Company's parent company, Interactive Investor Limited ('IIL'), and Share plc announced an agreement on terms of a recommended offer to combine the businesses. Under the offer, the IIL Group intends to acquire the entire issued and to be issued share capital of Share plc, subject to shareholder, regulatory and legal approvals.

The COVID-19 pandemic situation began to affect the UK in 2020 and, in an effort to mitigate its economic impact, the Bank of England introduced emergency interest rate cuts in March. These events have been treated as non-adjusting post balance sheet events and due to the uncertainty of events related to the pandemic we do not consider an estimate of the impact can be reliably determined.

There have been no other events between the period ended 31 December 2019 and the date of this report that would require disclosure in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

26 ULTIMATE CONTROLLING PARTY

During the year, the Company's immediate parent undertaking was transferred from Interactive Investor Holdings Limited to Interactive Investor Limited, as part of a restructuring of the Interactive Investor Limited Group. There is no change to the overall control or consolidation of the Company's financial statements, and Interactive Investor Services Limited remains included within the UK consolidated accounts of Interactive Investor Limited, the largest and smallest parent company preparing consolidated financial statements.

Copies of the group financial statements may be obtained from:

Interactive Investor Limited
201 Deansgate
Manchester
M3 3NW

The ultimate controlling party and ultimate parent company of the Company is JC Flowers IV LP, a Limited Partnership registered in the Cayman Islands.

APPENDIX: CAPITAL MANAGEMENT (Unaudited)

The unaudited regulatory capital position of the Company is summarised as follows:

	31 Dec 2019 £'000	31 Dec 2018 £'000
Own funds	101,795	90,890
Tier 1 deductions	(14,684)	(6,351)
Total eligible own funds	87,111	84,539
Pillar 1 capital requirement	10,671	8,357
Common Equity Tier 1 Capital surplus (4.5%)	81,109	79,838
Tier 1 Capital surplus (6%)	79,108	78,271
Total Capital surplus (8%)	76,440	76,182
CET1 Capital Adequacy Ratio (min 8%)	65.3%	80.9%
Capital adequacy ratio after ICG	19.3%	18.3%