CITADEL | Securities

# Citadel Securities (Europe) Limited

2019 Financial Statements

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# Citadel Securities (Europe) Limited

**Annual Report and Financial Statements for the year ended 31 December 2019**

**Registered Number: 5462867**

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# Company Information

**Board of Directors at Date of Signing**
Steven Atkinson
Richard Pike
Anthony Walker
Katrina Manson

**Statutory Audit Firm**
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Audit Firm
7 More London Riverside
London SE1 2RT

**Registered Office**
120 London Wall
London EC2Y 5ET
England

**Bankers**
Bank of New York
1 Wall Street
New York
NY 10286
United States of America

JP Morgan Chase Bank N.A
25 Bank Street
Canary Wharf
London E14 5JP

# Directors' Report

The Directors present their report and audited financial statements of Citadel Securities (Europe) Limited ("CSEL" or the "Company") for the year ended 31 December 2019. All amounts presented are in USD in thousands unless otherwise stated. These financial statements were authorised for issue by the Board of Directors on 2 April 2020. The Directors have chosen to disclose the Company's risk management objectives and policies, and the future outlook of the Company in the Strategic Report in accordance with Section 414C(11) of the Companies Act 2006.

## DIRECTORS

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

- Steven Atkinson
- Richard Pike (independent)
- Anthony Walker (independent)
- Katrina Manson, appointed on 24 January 2020

The following Directors resigned from the Board of Directors between 1 January 2019 and the date of signing the financial statements:

- Matthew Culek, resigned on 27 November 2019
- Mark Wright, resigned 30 March 2020

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

## RESULTS AND DIVIDENDS

The Company earned net revenue of $175,123 (2018: $251,114) and made a profit before taxation of $25,021 (2018: $98,559). The profit attributable to continuing operations was $19,279 (2018: $68,187). During the year ended 31 December 2019, the Company paid $110,000 in dividends (2018: $190,000). The Directors do not recommend the payment of a final ordinary dividend in respect of the year ended 31 December 2019.

## RESEARCH AND DEVELOPMENT

The Company provided trading algorithm and other software development services to affiliated Citadel Securities Group ("CS Group") entities. The CS Group references related parties which are subsidiaries of Citadel Securities Holdings LP.

## STAKEHOLDER ENGAGEMENT

Please refer to the Strategic Report.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard" applicable in the UK and Republic of Ireland, and applicable law ("FRS 102")). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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.

# Directors' Report

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.

## STATEMENT ON DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each Director in office at the date the Directors' Report is approved, each Director confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## BRANCH

The Company has established a branch in Ireland and the address of its branch office is One Grand Canal Square, Dublin 2, Ireland. As of April 2019, the branch ceased carrying out regulated activity and now employs staff providing technology support services to affiliated CS Group entities.

## INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Board of Directors meeting on 2 April 2020.

## SUBSEQUENT EVENTS

Please refer to Note 23 accompanying the financial statements.

## FUTURE DEVELOPMENTS

Please refer to the Strategic Report.

## FINANCIAL RISK MANAGEMENT

Please refer to Note 18 accompanying the financial statements.

On behalf of the Board

Steven Atkinson, Director
2 April 2020

# Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2019.

## PRINCIPAL ACTIVITES

The principal activity of the Company is liquidity provision and market making in equities, futures, options, interest rate swaps and government securities. The Company trades on a proprietary basis for its own account. Additionally the Company provides trade agency services and support, trade execution, portfolio management, trading algorithm and software development and other support services to affiliated CS Group entities.

## BUSINESS ENVIRONMENT AND COMPETITION

The principal markets in which the Company operates, are highly competitive with competition from both incumbent players and new market entrants. These markets continue to evolve as a result of new regulation and technologies. In order to compete effectively in these markets there is continuous focus on evolving the trading strategies deployed, the product sets traded, the trading venues utilised and the technology employed combined with investment into researching potential new opportunities.

## BUSINESS REVIEW

Throughout 2019, uncertainty continued around the United Kingdom's ("UK") withdrawal from the European Union ("EU") ("Brexit"). In order to maintain continuity of business, the CS Group undertook the necessary planning to ensure it was ready for a range of scenarios which included establishing a regulated entity in Dublin, Ireland in 2018 which is part of the CS Group. The Company scaled down business conducted by the Irish branch of CSEL. Trading in EU markets was scaled up in the Irish regulated entity to ensure maintenance of EU market access by the CS Group in case of any Brexit scenarios. The wind-down of regulated trading activity in the Irish branch of CSEL has been disclosed as a discontinued operation for 2019 and 2018 (as restated). Profit for the year generated from continuing operations was $19,729 (2018: $68,187). As a result of the reduction in trading activity, the Company was able to return net capital of $110,000 (2018: $190,000) to its shareholder.

In 2019, the Company continued to invest in technology, expanding its offering in non-EU markets and in U.S. government securities as well as increasing the services provided to other CS Group entities. This investment resulted in a 6.4% increase in the Company's administrative expenses attributable to continuing operations in 2019, primarily driven by the 10.1% increase in headcount during the year. The statement of financial position on page 2 shows a strong net asset position, enabling the Company to take advantage of any opportunities identified in the market.

## PRINCIPAL RISKS, FINANCIAL RISKS AND UNCERTAINTIES

The Company has exposure to the following risks from its use of financial instruments: market risk, operational risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management framework is established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor these risks. Risk management processes and limits are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's risk management processes and systems seek to minimise the potential, adverse effects of these risks on financial performance. Market risk limits are set by the Board of Directors in the risk appetite statement and are closely monitored on an intra-day basis to ensure compliance. Credit risk, including settlement risk, is monitored on a daily basis against limits set by the Board of Directors in the risk appetite statement.

Liquidity risk is monitored intra-day in accordance with the liquidity risk tolerances set by the Board of Directors.

The Company is required to manage a range of operational risks including risks associated with the high volume of trading that is undertaken on an automated basis. These risks are constantly being monitored and managed. On a monthly basis these risks are formally reported on to ensure they are within agreed risk tolerances with any breaches being escalated ultimately to the Board of Directors to ensure the operational risk control framework remains appropriate and that any necessary incremental controls are implemented. These operational risks include conduct risk, outsource risk, cyber security risk, reporting risk and technology risk.

The Company defines operational risk as the prospect of financial loss or damaged reputation resulting from inadequate or failed internal processes, people and systems, or from external events, and holds economic and regulatory capital against such risks. Given the Company's business model, both financial and non-financial potential impacts are considered in the assessment of risks.

Management of operational risks is a prime consideration in the way the Company conducts its business as a market maker across a range of asset classes in key financial markets around the world. As with the approach to that business, the Company takes a technology-centric approach to risk management, with a framework of automated pre and post trade controls across the Company's trading areas, monitored by experienced financial professionals. These controls are supplemented by policies, procedures, and risk assessments as well as incident management and response.

# Strategic Report

The Company continues to develop and implement enhanced methodologies to identify, measure, monitor and manage material operational risks in its key activities, and the Company periodically assesses operational risks in the processes that support its businesses.

The Company relies to a material extent on computer hardware and software, including both equipment and programs licensed from affiliates as well as those licensed from third parties (collectively "Computer Systems"). The Company uses Computer Systems in substantially all phases of its business operations including, but not limited to, analytics, trade execution, risk management and back office processing. The performance of the Company, including critical processes of the Company, could be severely compromised by Computer Systems disruptions and/or outages including, but not limited to, design and implementation errors, cybersecurity related threats, interference with linkages to internal and third party data centres, hardware failures, or software "crashes".

In common with other financial institutions, the Company faces an increasingly challenging cyber risk environment, including a higher active threat context and increasingly demanding compliance expectations. Accordingly, the Company is continually assessing its cybersecurity stance in line with financial services industry expectations and practices. The Company also continues to focus on its preparedness to react to significant events that could disrupt its normal operations through the CS Group Business Continuity & Recovery program.

An independent Operational Risk effort within the Group's Chief Risk Officer monitors and checks the business' risk management practices, advises on developing frameworks, processes and controls to manage and mitigate risks and issues, while independently escalating risk and control issues to senior management.

Further information is provided in the Company's Pillar 3 disclosure document which should be read in conjunction with these financial statements and which is available via the Citadel Securities website (www.citadelsecurities.com).

A key risk for the Company is not being able to retain key employees. This risk is addressed by human resource policies to ensure that the Company recruits and retains staff with the appropriate skills, by offering an attractive work place environment and competitive remuneration packages.

The financial markets in which the Company operates and the activities of the Company are subject to frequent regulatory and legislative changes. The Company closely monitors all proposed changes and actively engages in the consultation processes to ensure the Company is positioned to respond to developments.

The decision made in the UK's referendum to leave the EU has led to volatility in the financial markets of the UK and more broadly across Europe and may also lead to weakening in consumer, corporate and financial confidence in such markets. The final terms on which the UK will leave the EU after the transition period expires, which is currently scheduled for 31 December 2020, remain uncertain. The lack of clarity of the framework to be put in place between the UK and the EU is likely to continue the uncertainty and volatility in both the UK and in wider European markets for some time, which may have an adverse effect on the economy generally. The residual impact on the Company of the UK's withdrawal from the EU is expected to be limited and is not expected to materially change the financial position or business activities conducted by the Company.

In its capacity as service provider to CS Group companies, the Company is dependent on the continued long term success of the CS Group. The performance of affiliated entities within the CS Group could be negatively impacted by various risks including, but not limited to, market risk, credit risk, liquidity risk and operational risk.

Legal, tax and regulatory changes could occur during the term of the Company. Certain changes could have a material adverse effect on the Company.

Please refer to Note 18 accompanying the financial statements for further disclosure.

# Strategic Report

## KEY PERFORMANCE INDICATORS ("KPIs")

The Directors monitor a range of performance indicators to oversee the development and performance of the business. These are included in net revenue, trading volume and liquidity reports, all of which are produced and reviewed on a daily basis.

The Company's KPIs are the following (unaudited).

- Profit for the financial year: This indicates the net profit across all business lines of the Company and it is one of the most important indicators of the Company's overall performance.
- Liquidity ratio: This represents liquid assets as a percentage of the Company's net asset value and is indicative of the liquidity of the Company's capital resources.
- Return on equity: This represents the profit for the financial year divided by average equity during the year on the statement of financial position.

| | 2019 | 2018 |
|---|---|---|
| Profit for the financial year | $ 15,633 | $ 75,165 |
| Liquidity ratio | 49.62% | 35.96% |
| Return on equity | 5.45% | 19.71% |

The Company's profit for 2019 amounted to $15,633 (2018: $75,165) which represents a decrease of 79% compared to 2018. The decrease in profitability and return on equity is the result of a reduction in revenues generated from trading in EU markets due to Brexit contingency planning and an increased investment in the other business. The increase in the liquidity ratio is driven by the reduction in equity whilst maintaining a consistent level of liquid assets. The Company continues to maintain a strong balance sheet with liquid assets amounting to $118,861 at 31 December 2019 (2018: $121,387) and no long-term debt.

The Company also produces a range of risk indicators monthly which are used by management to understand the performance of the business. Various key risk metrics are produced by Finance, Human Resources, Compliance, Technology, Risk and Operations departments and these are tested against the approved risk appetite set by the Board. Metrics monitored include employee turnover, operational risk incidents, and compliance monitoring.

## STRATEGY AND FUTURE DEVELOPMENTS

The Company's strategy is to continue to develop its successful systematic trading businesses and leverage the CS Group's global expertise in market making and liquidity provision using advanced electronic trading technology by expanding to new markets and asset classes. The Company has a proven track record of expanding to new asset classes by focusing on market structures which are suited to automation and defined by open access, transparent pricing and centrally cleared instruments.

Prior to 2019, the Company's business predominately related to dealing in investments as principal. However going forward it is expected that an increasing proportion of CSEL's total revenues will originate from services provided to other CS Group entities, under various agreements, for which it is remunerated on an arm's length basis. These services include group portfolio management, trade agency services, trade support, trading algorithm and software development, execution and other support services.

## SECTION 172(1) STATEMENT

As set out in section 172 of the UK Companies Act 2006 (the "Act"), the Directors are required to act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole. In performing their duty under the Act, the Board is required to have regard to, 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 environment and the need to engage with key stakeholders in order to maintain a reputation for high standards of business conduct. The Directors give careful consideration to the factors set out above in discharging their duties.

### *BOARD ROLES AND RESPONSIBILITIES*

The Company is a wholly owned subsidiary of the CS Group which is privately owned and ultimately controlled by Kenneth Griffin, its Founder. Given its ownership structure and its role within the CS Group, the Board of Directors look to implement the CS Group Strategy through the Company whilst ensuring adherence with local requirements and considering the impact on key stakeholders. The Board has responsibility for decision-making with respect to matters deemed to be of significance or strategic importance for CSEL.

# Strategic Report

At 31 December 2019, the Board comprised two independent non-executive directors who provide oversight and constructive challenge to management and two executive directors. The Board in discharging its duties, delegates authority to management and sub-committees of the Board. The remit and responsibility of each committee is clearly defined and updated periodically as required. The principal sub-committee is the Executive and Operating Committee (the "EOC") which consists of senior management of the Company and other group employees. Sub-committees present proposals on significant matters to the Board for review, challenge and approval, this includes allowing the Board to consider whether the proposal would promote the long-term success of the Company. The Board is responsible for review and approval of recommendations made by sub-committees, including but not limited to changes to CSEL's risk appetite and tolerances.

## *STAKEHOLDER ENGAGEMENT*

The Directors recognise the value of building strong and transparent relationships with stakeholders in promoting and achieving the long-term success of the business. In making decisions, the Directors take into account the views and interests of key stakeholders, including its shareholder, employees, regulators, trading counterparties, trading venues and suppliers. Considering the impact on a broad range of stakeholders is an important part of the decision-making process and the Board seeks to consider the interests and priorities of each stakeholder group. However, the Board acknowledges that in balancing different perspectives it is not always possible to deliver the desired outcome for all stakeholders.

*Shareholder*
The Company is a wholly owned subsidiary of a privately owned group. As a matter of course, a global business and strategy update is provided to the Board, and the Directors take due account of the interests of the ultimate owner and the strategy of the wider Group in decision making to ensure alignment.

The executive directors are in frequent dialogue with the CS Group senior management to ensure their feedback is sought with respect to significant decisions taken by the Board.

*Employees*
The Company operates as a meritocracy and in doing so recognises the importance of hiring, developing and retaining leading professionals across each function within the Company. Robust processes are in place to attract the best talent to work in highly effective teams. Further, a culture of continual learning and development for all employees is supported to ensure they continue to remain effective in their roles.

The Company has under 125 employees, with all teams being represented on the management committees attended by the executive directors. This helps to ensure active feedback and engagement between employees and the Board. Further, during the course of 2019 the internal auditors for the Company conducted a culture review, the results of which were presented to the Board for review and discussion. In addition the CS Group has regular Town Hall meetings to which all employees are invited to help ensure the Citadel Securities strategy and plans are understood by the Company's employees.

*Regulators and Trading Venues*
The Board recognises the importance of open and continuous dialogue with its regulators both from an ongoing supervisory perspective as well as from the policy and advocacy side. The CS Group is a firm supporter of the G-20 reforms to the over-the-counter derivatives markets, including the central clearing and trading requirements. These reforms have already begun and once fully adopted by the market are expected to reduce systemic risks, improve pre- and post-trade transparency, and foster an open, level, and competitive playing field. CSEL has been and remains committed to constructively engaging with policymakers and regulators to ensure the successful development and implementation of key financial services regulation including MiFID II, EMIR, the Prudential Framework for Investment Firms, and the Capital Markets Union.

Among others, in 2019, the CS Group responded to the European Securities and Markets Authority's consultations on (i) the provision of clearing services on fair, reasonable, non-discriminatory and transparent terms, (ii) the alignment of the clearing obligation and the trading obligation, and (iii) the development in prices for pre- and post-trade data and on the consolidated tape for equity instruments.

*Trading Counterparties and Suppliers*
The CS Group strives to provide the most efficient execution and the highest caliber of services to clients and in so doing making markets more fair, transparent and accessible for all participants.

The Company is committed to supporting and developing strong relationships with suppliers and understands the importance of meeting payment terms, particularly for smaller businesses. The Directors noted that the Company had met its key performance indicators in relation to payment periods.

# Strategic Report

*DECISION MAKING*

The example below demonstrates how Directors have considered the matters set out in section 172(1)(a)-(f) when discharging their duties under section 172 and the effect of that on certain of the decisions taken.

*Brexit Planning*
In anticipation of the UK exiting the EU and specifically to address the risk of the UK leaving the EU without securing an agreement to remain within the EU's Single Market (a "Hard Brexit"), the CS Group decided to establish a new entity in the Republic of Ireland. That new entity commenced trading in 2018 and prepared to increase its trading activity in the event of a Hard Brexit. Throughout 2019, the terms and timeline for the UK's in. In particular, the terms of Article 50 of the Lisbon Treaty increased the uncertainty for businesses as each extension was announced only a few days before the deadline. The Board of Directors of the Company were required to consider and make a decision on whether to reduce its trading activity in EU markets in order to ensure business continuity for the CS Group, a matter of strategic significance for the Company. The Board of Directors received regular updates from the Chief Executive Officer and Chief Compliance Officer on the Company's Brexit proposals. A Brexit working group was formed with representatives from all relevant departments across the Company with Group representation. A Brexit update was provided to the EOC on a monthly basis. All reports to the EOC were also distributed to the Directors in advance of each Board meeting. In making its decision, the Board took into account the following information:

- The Board of Directors considered the possible impact on its shareholder. The EU represents a large market and the CS Group has an interest in securing access to EU markets over the long term, with minimal disruption.

- The Board of Directors considered the impact of the uncertainty on its trading counterparties. Based on legal advice, a no-deal scenario could have restricted the Company's ability to service its EU counterparties and trade on EU venues. Providing an affiliated entity that could continue to facilitate their needs provided greater certainty to counterparties.

- The Board of Directors considered the impact of the uncertainty on employees and having a CS Group solution to ensure business continuity limited the disruption to employees and provided greater certainty to them with respect to future roles.

- Management engaged with regulators and trading venues throughout the process to inform them of the Company's plans and receive feedback on these plans. These updates were provided to the Board of Directors.

After careful consideration the Board of Directors concluded to reduce its trading activity in EU markets in advance of potential Hard Brexit dates and repay excess capital to the CS Group. This decision balanced the views of all stakeholders to promote the success of the Company for the benefit of its members as a whole over the long term.

On behalf of the Board

Steven Atkinson, Director
2 April 2020

# Independent Auditors' Report to the members of Citadel Securities (Europe) Limited

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

In our opinion, Citadel Securities (Europe) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### CONCLUSIONS RELATING TO GOING CONCERN

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

### REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

# Independent Auditors' Report to the members of Citadel Securities (Europe) Limited

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Strategic Report and Directors' Report*
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

*Responsibilities of the Directors for the financial statements*
As explained more fully in the Statement of Directors' Responsibilities set out on page iii, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

*Use of this report*
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## OTHER REQUIRED REPORTING

## COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Mike Wall

Mike Wallace (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 April 2020

# Statement of Comprehensive Income

*(Expressed in U.S. dollars in thousands)*

| | | For the year ended 31 December 2019 | | | For the year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|---|
| | Note | Continuing Operations | Discontinued Operations | Total | Continuing Operations (as restated) | Discontinued Operations (as restated) | Total |
| **Net revenue:** | | | | | | | |
| Income from trading | 5 | $ 138,569 | $ 7,138 | **$ 145,707** | $ 347,473 | $ 41,773 | **$ 389,246** |
| Fees and commission expense | 6 | (48,925) | (2,741) | **(51,666)** | (134,092) | (10,533) | **(144,625)** |
| Income from service fees | 7 | 79,055 | — | **79,055** | 6,015 | — | **6,015** |
| Other revenue | | 2,027 | — | **2,027** | 478 | — | **478** |
| **Net revenue** | | 170,726 | 4,397 | **175,123** | 219,874 | 31,240 | **251,114** |
| **Expenses:** | | | | | | | |
| Administrative expenses | 8 | (128,299) | (5,573) | **(133,872)** | (120,598) | (22,090) | **(142,688)** |
| **Operating profit/(loss)** | | 42,427 | (1,176) | **41,251** | 99,276 | 9,150 | **108,426** |
| Net finance expense | 9 | (16,230) | — | **(16,230)** | (9,867) | — | **(9,867)** |
| **Profit/(loss) before taxation** | | 26,197 | (1,176) | **25,021** | 89,409 | 9,150 | **98,559** |
| **Taxation:** | | | | | | | |
| Tax on profit/(loss) | 10 | (6,918) | (2,470) | **(9,388)** | (21,222) | (2,172) | **(23,394)** |
| **Profit/(loss) for the financial year** | | 19,279 | (3,646) | **15,633** | 68,187 | 6,978 | **75,165** |
| **Total comprehensive income** | | $ 19,279 | $ (3,646) | **$ 15,633** | $ 68,187 | $ 6,978 | **$ 75,165** |

The accompanying notes form an integral part of these financial statements.

# Statement of Financial Position

*(Expressed in U.S. dollars in thousands)*

| | Note | | At 31 December 2019 | | At 31 December 2018 (as restated) |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | | $ | 58,487 | $ | 37,343 |
| Trade receivables | 13 | | 529,767 | | 207,879 |
| Financial assets at fair value through profit and loss | 14,15 | | 853,716 | | 2,186,646 |
| Reverse repurchase agreements | 16 | | 103,726 | | 157,440 |
| Receivable from affiliates | | | 28,359 | | 80,932 |
| | | | 1,574,055 | | 2,670,240 |
| **Current liabilities** | | | | | |
| Financial liabilities at fair value through profit and loss | 14,15 | | 905,123 | | 2,248,177 |
| Other creditors | 17 | | 429,378 | | 88,142 |
| | | | 1,334,501 | | 2,336,319 |
| Net current assets | | | 239,554 | | 333,921 |
| **Net assets** | | | 239,554 | | 333,921 |
| **Equity** | | | | | |
| Called up share capital | 20 | | 193,000 | | 193,000 |
| Retained earnings | | | 46,554 | | 140,921 |
| **Total shareholder's funds** | | $ | 239,554 | $ | 333,921 |

The financial statements on pages 1 to 16 were approved by the Board of Directors on 2 April 2020 and were signed on its behalf by:

Steven Atkinson, Director
2 April 2020

The accompanying notes form an integral part of these financial statements.

# Statement of Changes in Equity

*(Expressed in U.S. dollars in thousands)*

| For the year ended 31 December 2018 | Called Up Share Capital | Retained Earnings | Total Shareholder's Funds |
|---|---|---|---|
| Balance at 1 January 2018 | $ 173,000 | $ 255,756 | $ 428,756 |
| Total comprehensive income | — | 75,165 | 75,165 |
| Dividends | — | (190,000) | (190,000) |
| Issuance of share capital | 20,000 | — | 20,000 |
| **Balance at 31 December 2018** | $ 193,000 | $ 140,921 | $ 333,921 |

| For the year ended 31 December 2019 | Called Up Share Capital | Retained Earnings | Total Shareholder's Funds |
|---|---|---|---|
| Balance at 1 January 2019 | $ 193,000 | $ 140,921 | $ 333,921 |
| Total comprehensive income | — | 15,633 | 15,633 |
| Dividends | — | (110,000) | (110,000) |
| **Balance at 31 December 2019** | $ 193,000 | $ 46,554 | $ 239,554 |

The accompanying notes form an integral part of these financial statements.

# Statement of Cash Flows

*(Expressed in U.S. dollars in thousands)*

| | Note | For the year ended 31 December 2019 | 2018 |
|---|---|---|---|
| Net cash inflow from operating activities | 21 | $ 102,354 | $ 167,740 |
| Taxation paid | | (6,847) | (29,120) |
| **Net cash generated from operating activities** | | 95,507 | 138,620 |
| Interest received | | 63,347 | 29,994 |
| Disbursement of loan to affiliate | | — | (80,000) |
| Net proceeds from loan repayments | | 52,000 | 90,000 |
| **Net cash generated from investing activities** | | 115,347 | 39,994 |
| Interest paid | | (79,716) | (37,831) |
| Dividends paid | | (110,000) | (190,000) |
| Proceeds from issuance of share capital | | — | 20,000 |
| **Net cash used in financing activities** | | (189,716) | (207,831) |
| Net increase/(decrease) in cash and cash equivalents | | 21,138 | (29,217) |
| Net gains/(losses) due to exchange rate changes on cash and cash equivalents | | 6 | (233) |
| Cash and cash equivalents at beginning of the year | | 37,343 | 66,793 |
| **Cash and cash equivalents at end of the year** | | $ 58,487 | $ 37,343 |

The accompanying notes form an integral part of these financial statements.

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

**NOTE 1**

## General Information

Citadel Securities (Europe) Limited ("CSEL" or the "Company") is a full scope investment firm regulated by the Financial Conduct Authority ("FCA"). The principal activity of the Company is liquidity provision and market making in equities, futures, options, interest rate swaps and government securities. The Company trades on a proprietary basis for its own account. Additionally the Company provides trade agency services and support, trade execution, portfolio management, trading algorithm and software development and other support services to affiliated Citadel Securities Group ("CS Group") entities. The Company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is 120 London Wall, London EC2Y 5ET. The Company has established a branch in Ireland, the address of its branch office is One Grand Canal Square, Dublin 2, Ireland. The wind-down of regulated trading activity in the Irish Branch has been disclosed as a discontinued operation on the statement of comprehensive income. The branch continues to employ staff providing technology support services to affiliated CS Group entities.

**NOTE 2**

## Statement of Compliance

The individual financial statements of CSEL have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006 ("the Act").

**NOTE 3**

## Accounting Policies

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

*Basis of Preparation*

The financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value (as explained below). The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company continues to review and update its accounting policies, in accordance with the requirements of Section 10 of FRS 102 ("Accounting Policies, Estimates and Errors").

The format of the profit and loss account has been amended from that prescribed in the Act as, in the opinion of the Directors, the presentation adopted better reflects the nature and activities of the business of the Company.

As part of the CS Group Brexit planning, the Company scaled down business conducted by the Irish branch of CSEL. The wind-down of regulated trading activity in the Irish branch of CSEL has been disclosed as a discontinued operation for 2019 and 2018 (as restated).

*Use of Estimates and Judgements*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. To assist management in exercising their judgement in relation to specific matters, the Company will obtain specialist in-house and external advice as required. Any material tax positions or related valuations adopted in the year where judgements have been applied have been validated by external advisors. All financial instruments are valued using quoted prices or observable inputs. Management has concluded that the judgements made during the year are not significant and that any estimation uncertainty does not give rise to significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Functional and Presentation Currency*

These financial statements are presented in USD, which is the Company's functional currency. Functional currency is the currency of the primary economic environment in which the CS Group operates. The issued share capital and revenue of the Company is denominated in USD and the performance of the Company is measured and reported to the shareholder in USD. The Directors of the Company believe that USD most faithfully represents the economic effects of the underlying transactions, events and conditions.

*Foreign Currencies*

Transactions in foreign currencies are translated into USD at the exchange rate ruling on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into USD at the rate of exchange ruling at the statement of financial position date. At 31 December 2019, the applicable exchange rates for GBP:USD and EUR:USD were 1.3420 (2018: 1.2752) and 1.1217 (2018: 1.1457), respectively.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised on the statement of comprehensive income within income from trading.

*Net Revenue*

Net revenue has been disclosed instead of turnover as this more meaningfully reflects the nature and results of the Company's activities. Net revenues are recorded on a trade date basis.

*Interest Income and Expense*

Interest income (expense) is recognised on an accruals basis using the effective interest method. Premiums (discounts) on debt obligations are amortised (accreted) over the life of the instrument using the effective yield method.

*Income from Trading*

Income from trading comprises: net trading interest income on swaps which is recognised as earned; foreign exchange gains or losses; and gains or losses on trading activity, net of financial transaction taxes and compression fees. Gains or losses on trading activity represents the difference between proceeds received on disposal and the initial cost of acquisition, including unrealised gains or losses on open positions. Dividends received and paid on equity securities are recognised as income or expense on the ex-dividend date, net of applicable withholding taxes.

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

*Fees and Commission Expense*
Fees and commission expense principally comprise brokerage, exchange, clearing, market intermediation and swap fees associated with trading activity. The fees are recognised in net revenue on an accruals basis as the service is provided, net of any rebates earned.

In 2019, the Company changed the presentation of exchange fee rebates and liquidity rebates from a gross basis to a net presentation in accordance with guidance on consideration received from vendors. This change has been applied retrospectively, resulting in a reclassification of $8,241 from 'Income from Trading' to 'Fees and Commission Expense' for 2018.

*Income from Service Fees*
Income from service fees includes revenue from contracts with affiliated entities. The Company earns service fees for trade agency services and support, trade execution, relationship management and marketing, portfolio management and trading algorithm and software development services provided to affiliated customers. Other revenue is recognised on an accruals basis when the Company obtains the right for consideration.

*Research and Development Tax Credits*
The Company is entitled to research and development credits for qualifying expenditures. Research and development tax credits are recognised when there is reasonable assurance that the credits will be received. In 2019, the Company received a research and development tax credit for qualifying expenditures in 2018, included within other revenue.

*Administrative Expenses*
Administrative expenses are recognised on an accruals basis. Trading service fees paid to affiliated entities are calculated on a cost plus basis pursuant to a service agreement.

*Cash and Cash Equivalents*
The Company defines cash and cash equivalents on the statements of financial position and cash flows as cash and funds held in liquid investments with original maturities of 90 days or less. Cash and cash equivalents are held at various global institutions. As at 31 December 2019, $1,000 (2018: $1,000) is segregated at The Bank of New York Mellon to facilitate the transfer of funds with LCH Clearnet Limited ("LCH") on its direct debit system.

*Recognition and Derecognition of Financial Assets and Liabilities*
The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The Company recognises a financial asset or liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. Derecognition of financial assets occurs when the contractual rights to the cash flows from the assets expire or the Company transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Derecognition of financial liabilities occurs when the contractual obligations are discharged or cancelled or have expired. Measurement of financial assets and liabilities is based on the fair value of the instruments.

*Financial Assets and Liabilities at Fair Value through Profit and Loss*
Financial assets and liabilities at fair value through profit and loss include securities owned, securities sold but not yet purchased, and derivative financial instruments. In accordance with Section 12 of FRS 102, the initial measurement is made at fair value on the trade date, which is normally the transaction price. Such financial instruments are carried on the statement of financial position at fair value and any subsequent adjustments to fair values are recognised in income from trading on the statement of comprehensive income in the period in which they arise. Substantially all of the Company's securities owned and carried at fair value are held at a major financial institution which is permitted by contract or custom to sell or repledge these securities.

*Valuation of Financial Instruments*
The Company measures and reports securities owned, securities sold not yet purchased and derivative financial instruments ("Financial Instruments") at fair value, as determined by management. The fair value is based on available information and represents management's best estimate of fair value. The fair value determined may not necessarily reflect the amount which might ultimately be realised in an arm's length sale or liquidation of the Financial Instruments and such differences may be material. Financial Instruments within each portfolio are valued as of the market close (as determined by management). This valuation procedure is followed, irrespective of whether part or all of the Financial Instruments within a given portfolio continue to trade after the market close. Fair value shall be determined based on the valuations in effect as of the close of business on each date of determination, which valuations are next revised as of the close of business on the next business day. However, management may value (or revalue as the case may be) any and all Financial Instruments after the close of business if management believe that doing so is necessary to better reflect fair value, giving consideration to certain extraordinary events that management determine have or may have a material impact on the Company's net asset value, even though such event occurs after the close of business.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants, at the measurement date. Where available, fair value is based on observable market prices or inputs or derived from such prices or inputs. Where observable market prices or inputs are not available, other valuation techniques are applied. These valuation techniques involve some level of estimation and judgement by management, the degree of which is dependent on the price transparency for the Financial Instruments or market and the Financial Instruments' complexity.

FRS 102 has a three-level fair value hierarchy for disclosure of fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

| **Basis of Fair Value Measurement** | |
|---|---|
| **Level 1** | The unadjusted quoted price in an active market for identical assets or liabilities; |
| **Level 2** | Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly; and |
| **Level 3** | Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability. |

A Financial Instrument's level within the fair value hierarchy is based on the lowest level of any input, individually or in the aggregate, that is significant to the fair value measurement.

Financial Instruments which are traded on one or more exchanges are generally valued at their closing price on the exchange upon which they are principally traded. Such Financial Instruments are generally classified within Level 1 of the fair value hierarchy. If valuation adjustments are applied to the quoted market prices of exchange-traded Financial Instruments to arrive at fair value, such positions are primarily categorised within Level 2 or in more limited circumstances, Level 3 of the fair value hierarchy based on the significance of unobservable inputs to the overall valuation.

The following describes the valuation techniques applied to the Company's classes of assets and liabilities to measure fair value, including an indication of the level within the fair value hierarchy in which each asset and liability is generally classified. Where appropriate, the description includes details of the valuation models and the significant inputs to those models.

**EQUITY SECURITIES**

*Exchange-traded equity securities*

Exchange-traded equity securities are generally valued using exchange quoted market prices and are generally categorised within Level 1 of the fair value hierarchy.

*Non-exchange-traded equity securities*

The Company's non-exchange-traded equity securities typically represent securities that are traded in over-the-counter ("OTC") markets. These non-exchange-traded equity securities are generally valued using market price quotations and are classified within Level 1 or Level 2 of the fair value hierarchy.

**U.S. GOVERNMENT SECURITIES**

U.S. government securities are valued using quoted market prices and are categorised within Level 1 of the fair value hierarchy.

**DERIVATIVE ASSETS AND DERIVATIVE LIABILITIES**

*Exchange-traded derivative financial instruments*

Exchange-traded derivative financial instruments include equity options, warrants and futures contracts, which are generally valued at the closing exchange price and are generally classified within Level 1 of the fair value hierarchy.

*OTC derivative financial instruments*

OTC derivative financial instruments include forward and swap contracts related to foreign currencies, interest rates or equity prices. OTC derivative financial instruments are valued using market-based inputs to models, broker or dealer quotations or alternative pricing sources offering price transparency.

Depending on the OTC derivative financial instrument and the terms of the transaction, the fair value can be either observed or modeled using a series of techniques, and model inputs from comparable benchmarks, including proprietary pricing models and simulation models or a combination thereof. Where models are used, the selection of a particular model depends upon:

- the contractual terms of, and specific risks inherent in, the instrument; and
- the availability of pricing information in the market.

Similar models are generally used to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, foreign exchange rates, foreign exchange forward points, yield curves and measures of volatility. For OTC derivative financial instruments that trade in liquid markets, such as generic forwards and swaps, model inputs can generally be verified and model selection does not involve significant management judgement. OTC derivative financial instruments are classified within Level 2 of the fair value hierarchy as all of the significant observable inputs can generally be corroborated to market evidence.

Also, to be consistent with industry practices, the Company's valuation of OTC derivative financial instruments is generally based on discounting in local currency at related market benchmark rates.

Management considers counterparty credit risk and nonperformance risk in its valuation of derivative financial instruments entered into as bilateral contracts between two counterparties. Factored into this consideration is the ability of the Company to settle, on a net basis, its derivative financial instruments pursuant to master netting agreements with each respective counterparty, as well as requirements to post and receive collateral pursuant to its credit support agreements with each respective counterparty.

<u>Netting Arrangements</u>

The Company enters into master netting agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis. Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

In 2019, the Company changed the presentation of certain derivative contracts from a net basis to a gross presentation in accordance with a group review of the conditions required to demonstrate the ability to offset financial instruments. This change has been applied retrospectively, resulting in a reversal of $14,711 previously net between 'Financial Assets at Fair Value Through Profit and Loss' and 'Financial Liabilities at Fair Value Through Profit and Loss' as at 31 December 2018.

<u>Derivative Contracts</u>

Derivative financial instruments generally reference notional amounts which are utilised solely as a basis for determining cash flows to be exchanged. Notional amounts provide a measure of the Company's portfolio commitment to such derivative financial instruments and are not necessarily indicative of economic exposure or potential risk. These derivative financial instruments are reported at fair value in the statement of financial position and any subsequent adjustments to fair values are recognised in net revenue on the statement of comprehensive income in the period in which they arise.

<u>Transfers of Financial Assets</u>

In general, transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. For transfers of financial assets that are not accounted for as sales, in which the transferor retains control of the financial assets, the financial assets remain on the statement of financial position and the transfer is accounted for as a collateralised transaction. Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralised transactions (see Note 16).

*(Expressed in U.S. dollars in thousands)*

Reverse repurchase agreements and repurchase agreements are reported within operating activities on the statement of cash flows. Reverse repurchase agreements and repurchase agreements are short-term in nature and are recorded at the amounts of cash paid or received, plus accrued interest, on the statement of financial position. Reverse repurchase agreements and repurchase agreements with the same counterparty are reported on a net basis when there exists a legally enforceable right to set off the recognised amounts and when certain other criteria are met in accordance with applicable accounting guidance on offsetting. Interest income or expense on reverse repurchase agreements and repurchase agreements is recognised over the term of the relevant agreement and included in net finance expense on the statement of comprehensive income.

*Pension Costs and Other Post Retirement Benefits*
The Company makes payments into a group personal pension plan, operating as a defined contribution pension scheme. All staff are employed by the Company or related entities, which allocates an appropriate share of pension costs to the Company (see Note 4). These costs are included in administrative expenses on the statement of comprehensive income.

*Staff Costs*
Compensation and benefits is comprised of salaries, benefits, payroll taxes, incentive compensation and other bonus expense granted to employees (see Note 11). The cost of termination payments is recognised as a liability when the related settlement agreement has been executed by both parties.

The Company grants incentive compensation to certain employees under the terms of the Citadel Employee Incentive Program (the "Program"). Pursuant to the Program, the Company grants those employees deferred bonus awards; the post-tax value of the deferred awards is contributed to employee investment funds, which in turn invest in affiliate managed funds. Incentive compensation is recorded as staff costs over the relevant service period when it is both probable and reasonably estimable.

Staff are employed directly by the Company or by related companies which allocate an appropriate share of staff costs to the Company. These costs are included in administrative expenses on the statement of comprehensive income.

*Prepayments and Accrued Income*
Certain contractual hiring, incentive compensation and bonus payments made to employees are subject to clawback terms. Amounts paid subject to clawback are included in prepayments and accrued income within debtors on the statement of financial position. The prepaid amount is charged to the statement of comprehensive income on a straight line basis over the remaining clawback period.

*Related Party Transactions*
The Company discloses transactions with related parties which are not wholly-owned by the same parent entity. Where appropriate, transactions of a similar nature are aggregated.

The Company has taken an exemption available in Section 33 of FRS 102 not to disclose transactions with entities that are part of the group qualifying as related parties on the basis that it is a wholly owned subsidiary.

**NOTE 4**

## Transactions with Related Parties

The Company discloses transactions with related parties which are not wholly owned by Citadel Securities Holdings LP ("CSHP"), an affiliate. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

*Administrative Services*
Pursuant to an administrative services agreement, the Company reimburses Citadel Enterprise Europe Limited ("CEEU"), Citadel Securities Ireland Services Limited (formerly Citadel Enterprise Management Services Limited) ("CSIRL") and Citadel Enterprise Americas LLC ("CEAMER") for direct and allocable administrative, general and operating expenses paid by these entities on behalf of the Company.

For the year ended 31 December 2019, allocable expenses amounted to $12,648 (2018: $25,118) and are included in administrative expenses on the statement of comprehensive income. As at 31 December 2019, a balance of $2,402 (2018: $7,628) was payable to related companies in respect of direct and allocable expenses, included within other creditors on the statement of financial position.

CEEU, CSIRL and CEAMER act as paying agents for the Company in respect of all administrative expenses (see Note 8).

*Guarantees*
CSEL has provided a guarantee in respect of the lease of CSIRL office premises. As at 31 December 2019, CSIRL had minimum future lease commitments of $5,418 (2018: $6,785).

**NOTE 5**

## Income from Trading

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | **2018*** |
| Net gain in fair value on financial assets and liabilities at fair value through profit or loss | $ 148,700 | $ 438,774 |
| Net dividend income/(expense) | 150 | (11,510) |
| Net foreign exchange loss | (3,143) | (38,018) |
| | $ 145,707 | $ 389,246 |

*As restated, see Note 3 for further information.

**NOTE 6**

## Fees and Commission Expense

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | **2018*** |
| Exchange, clearance, and regulatory fees, net | $ 27,351 | $ 70,720 |
| Market intermediation expense | 16,285 | 51,551 |
| Liquidity expense, net | 6,712 | 20,488 |
| Execution commissions | 1,318 | 1,866 |
| | $ 51,666 | $ 144,625 |

*As restated, see Note 3 for further information.

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

NOTE 7

## Income from Service Fees

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Algorithm development service fees | $ 37,467 | $ 580 |
| Trade agency and support service fees | 35,008 | 1,212 |
| Portfolio management service fees | 2,756 | 590 |
| Relationship management and marketing service fees | 2,204 | 1,137 |
| Trade execution service fees | 1,620 | 2,496 |
| | $ 79,055 | $ 6,015 |

Income from service fees relates to contracts with affiliated entities.

NOTE 8

## Administrative Expenses

Operating profit is stated after charging:

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Staff costs (Note 11) | $ 89,111 | $ 81,222 |
| Other costs | 40,240 | 53,872 |
| Irrecoverable value added tax | 3,883 | 6,519 |
| Auditors' remuneration: | | |
| Audit services pursuant to legislation | 322 | 302 |
| Audit-related services | — | 59 |
| Taxation advisory services | 47 | — |
| Other non-audit services | 22 | — |
| Fund administration services | 247 | 714 |
| | $ 133,872 | $ 142,688 |

NOTE 9

## Net Finance Expense

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| **Interest income** | | |
| Collateralised agreements | $ 26,158 | $ 10,610 |
| U.S. government securities | 24,594 | 14,485 |
| Bank accounts, loans and other | 10,088 | 9,274 |
| | 60,840 | 34,369 |
| **Interest charges** | | |
| Collateralised agreements | (24,561) | (8,675) |
| U.S. government securities | (26,555) | (15,324) |
| Bank accounts, loans and other | (25,954) | (20,237) |
| | (77,070) | (44,236) |
| **Net finance expense** | $ (16,230) | $ (9,867) |

Interest income from bank accounts, loans and other includes $3,212 (2018: $5,100) of interest income from group undertakings.

NOTE 10

## Tax on Profit

The tax charge is based on the profit for the financial year and comprises:

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| **Current tax** | | |
| UK corporation tax on profit for the financial year | $ 8,954 | $ 23,303 |
| Adjustments in respect of prior years | 434 | 91 |
| **Total current tax** | $ 9,388 | $ 23,394 |

The tax assessed for the year is higher than (2018: higher than) the average rate of corporation tax in the UK. The differences are explained below:

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Profit before taxation | $ 25,021 | $ 98,559 |
| Profit before taxation multiplied by the average rate of corporation tax in the UK | 4,754 | 18,726 |
| Bank corporation tax surcharge | 594 | 5,215 |
| Timing and other differences | 417 | (1,590) |
| Foreign exchange differences | 847 | 952 |
| Adjustments in respect of prior years | 434 | 91 |
| Non-taxable income | (128) | — |
| Gain on disposal | 2,470 | — |
| **Current tax charge for the year** | $ 9,388 | $ 23,394 |

*Factors Affecting Current and Future Tax Charges*

For the year ended 31 December 2019, the standard rate of corporation tax in the UK was 19% (2018: 19%). The Company is subject to a Bank Corporation Tax surcharge of 8% on profits in excess of GBP 25 million. The branch of the Company is subject to the standard rate of Ireland corporation tax of 12.5%. For the year ended 31 December 2019, the Irish tax charge was assessed to be $14 (2018: nil).

NOTE 11

## Staff Costs

Staff costs are made up as follows:

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Wages, salaries and bonus payments | $ 73,988 | $ 68,844 |
| Social security costs | 10,009 | 8,298 |
| Other staff costs | 3,164 | 2,266 |
| Pension costs | 1,950 | 1,814 |
| | $ 89,111 | $ 81,222 |

All staff are employed by the Company. These costs are included in administrative expenses on the statement of comprehensive income.

The monthly average number of employees during the year including Directors was 120 (2018: 109).

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

NOTE 12

## Directors' Remuneration

Total Directors' remuneration:

| | For the year ended 31 December 2019 | 2018 |
|---|---|---|
| Emoluments | $ 1,098 | $ 867 |
| Pension benefits | 17 | 22 |
| Compensation for loss of office | — | 468 |
| | $ 1,115 | $ 1,357 |

Directors' emoluments were $1,115 (2018: $1,357) for the year. Matthew Culek received no remuneration during the year (2018: nil). Matthew Culek is an employee of Citadel Securities Americas LLC ("CSAMER"), an affiliate. The emoluments of Matthew Culek are paid by CSAMER which makes no recharge to the Company. Matthew Culek's services to this Company and a number of affiliated entities are of a non-executive nature and his remuneration is deemed to be wholly attributable to his services to other group entities. Accordingly, no remuneration is disclosed in respect of Matthew Culek.

Remuneration in respect of the highest paid Director, which is included in staff costs (Note 11):

| | For the year ended 31 December 2019 | 2018 |
|---|---|---|
| Emoluments | $ 923 | $ 108 |
| Pension benefits | 13 | 8 |
| Compensation for loss of office | — | 468 |
| | $ 936 | $ 584 |

NOTE 13

## Trade Receivables

| | At 31 December 2019 | 2018 |
|---|---|---|
| Amounts owed by brokers | $ 501,877 | $ 142,469 |
| Amounts owed by clearing house | 16,309 | 54,626 |
| Prepayments and accrued income | 6,847 | 5,662 |
| Interest receivable | 2,015 | 4,312 |
| Tax credits receivable | 1,265 | — |
| Dividend receivable | 1,059 | 810 |
| Amounts owed by customer | 395 | — |
| | $ 529,767 | $ 207,879 |

Amounts owed by brokers principally include receivables for unsettled trades and cash collateral placed with the Company's brokers, principally Merrill Lynch International (A+). The rating disclosed is the long-term issuer rating per Fitch. Amounts owed by brokers also includes securities failed to deliver.

Amounts owed by clearing house include receivable for unsettled trades, cash collateral and deposits placed at LCH.

All trade receivables are due within one year, with the exception of a tax credit receivable of $839, which is due after one year.

NOTE 14

## Fair Value Disclosures

The tables below present by level within fair value hierarchy, financial assets and liabilities measured at fair value through profit or loss at 31 December 2019.

**ASSETS AT FAIR VALUE AT 31 DECEMBER 2019**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Securities owned** | | | |
| Equity securities | $ 399,577 | $ 1,282 | $ 400,859 |
| U.S. government securities | 395,261 | — | 395,261 |
| Total securities owned | 794,838 | 1,282 | 796,120 |
| **Derivative assets** | | | |
| Interest rate contracts | 2,518 | 831,851 | 834,369 |
| Commodity contracts | 162,198 | — | 162,198 |
| Equity contracts | 25,891 | 1,561 | 27,452 |
| Foreign exchange contracts | 20 | 49 | 69 |
| **Derivative assets before netting** | 190,627 | 833,461 | 1,024,088 |
| Netting | (161,351) | (805,141) | (966,492) |
| Total derivative assets | 29,276 | 28,320 | 57,596 |
| **Total** | $ 824,114 | $ 29,602 | $ 853,716 |

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

**LIABILITIES AT FAIR VALUE AT 31 DECEMBER 2019**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Securities sold, not yet purchased** | | | |
| Equity securities | $ 406,516 | $ 143 | $ 406,659 |
| U.S. government securities | 468,916 | — | 468,916 |
| Total securities sold, not yet purchased | 875,432 | 143 | 875,575 |
| **Derivative liabilities** | | | |
| Interest rate contracts | 1,314 | 805,141 | 806,455 |
| Commodity contracts | 161,360 | — | 161,360 |
| Equity contracts | 20,537 | 1,924 | 22,461 |
| Foreign exchange contracts | — | 5,764 | 5,764 |
| **Derivative liabilities before netting** | 183,211 | 812,829 | 996,040 |
| Netting | (161,351) | (805,141) | (966,492) |
| Total derivative liabilities | 21,860 | 7,688 | 29,548 |
| **Total** | $ 897,292 | $ 7,831 | $ 905,123 |

The tables below present by level within fair value hierarchy, financial assets and liabilities measured at fair value through profit or loss at 31 December 2018.

**ASSETS AT FAIR VALUE AT 31 DECEMBER 2018**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Securities owned** | | | |
| Equity securities | $ 891,435 | $ 1,985 | $ 893,420 |
| U.S. government securities | 729,125 | — | 729,125 |
| Total securities owned | 1,620,560 | 1,985 | 1,622,545 |
| **Derivative assets** | | | |
| Interest rate contracts | 8,335 | 535,075 | 543,410 |
| Commodity contracts | 250,887 | — | 250,887 |
| Equity contracts | 544,075 | 10,055 | 554,130 |
| Foreign exchange contracts | — | 372 | 372 |
| **Derivative assets before netting** | 803,297 | 545,502 | 1,348,799 |
| Netting* | (249,788) | (534,910) | (784,698) |
| Total derivative assets | 553,509 | 10,592 | 564,101 |
| **Total** | $ 2,174,069 | $ 12,577 | $ 2,186,646 |

**LIABILITIES AT FAIR VALUE AT 31 DECEMBER 2018**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Securities sold, not yet purchased** | | | |
| Equity securities | $ 843,649 | $ 91 | $ 843,740 |
| U.S. government securities | 854,141 | — | 854,141 |
| Total securities sold, not yet purchased | 1,697,790 | 91 | 1,697,881 |
| **Derivative liabilities** | | | |
| Interest rate contracts | 5,290 | 549,563 | 554,853 |
| Commodity contracts | 249,787 | — | 249,787 |
| Equity contracts | 521,896 | 6,712 | 528,608 |
| Foreign exchange contracts | — | 1,746 | 1,746 |
| **Derivative liabilities before netting** | 776,973 | 558,021 | 1,334,994 |
| Netting* | (249,788) | (534,910) | (784,698) |
| Total derivative liabilities | 527,185 | 23,111 | 550,296 |
| **Total** | $ 2,224,975 | $ 23,202 | $ 2,248,177 |

*As restated, see Note 3 for further information.

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

NOTE 15

## Derivative Financial Instruments

The Company transacted in derivative financial instruments during the year including futures contracts, forwards, exchange-traded options, total return and interest rate derivatives. These are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs or a combination of these factors and generally represent commitments to exchange cash flows, or to purchase or sell other financial instruments at specified future dates. The Company also holds a small number of warrants.

Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments including market and credit risk. Derivatives are typically also subject to certain additional risks, such as those resulting from leverage and significantly less liquidity, to which the underlying financial instruments may not be exposed. The Company may use derivative financial instruments in the normal course of its business to take speculative investment positions or to manage various underlying exposures for risk management purposes. The Company's derivative financial instrument risks should not be viewed in isolation but rather they should be considered on an aggregate basis along with the Company's other investing activities. The Company attempts to manage the risks associated with its derivative financial instruments along with its speculative investing activities in cash instruments as part of its overall risk management process (discussed in Note 18).

Futures contracts and forwards are commitments to either purchase or sell a financial instrument or currency at a future date for a specified price. These contracts may, in general, be settled in cash or through delivery of the underlying instrument. Futures contracts can be closed out at the discretion of the Company. However, illiquidity in the market could prevent the timely close-out of any unfavourable positions or require the Company to hold those positions until the delivery date, regardless of the changes in their value or the Company's investment strategy.

Options are contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments within a defined time period for a specified price. Options written by the Company create off-balance sheet risk, as the Company's contingent obligation to satisfy the purchase or sale of securities underlying such options may exceed the amount recognised on the statement of financial position.

Total return and interest rate derivative financial instruments are contractual agreements that require counterparties to exchange cash flows as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, currencies or indices. These instruments can involve market risk and/or credit risk in excess of the amount recognised on the statement of financial position.

The derivative fair value by underlying risk exposure is disclosed in Note 14 which includes information about the offsetting of derivative instruments. Gross derivative contracts exclude the effect of netting and do not necessarily represent the Company's actual exposure which may ultimately be reduced by netting agreements. Net derivative contracts represent the fair value of derivative assets and liabilities after the netting of positions by counterparty, when the legal right of offset exists and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The tables below present derivative outstanding notional value at 31 December by underlying risk exposure.

**NOTIONAL VALUE AT 31 DECEMBER 2019**

| | *Derivative Assets* | *Derivative Liabilities* |
|---|---|---|
| Equity contracts | $ 686,484 | $ 597,489 |
| Interest rate contracts | 53,263,858 | 39,809,727 |
| Commodity contracts | 3,642,188 | 3,575,672 |
| Foreign exchange contracts | 29,188 | 607,726 |
| Total gross derivative contracts | $ 57,621,718 | $ 44,590,614 |

**NOTIONAL VALUE AT 31 DECEMBER 2018**

| | Derivative Assets | Derivative Liabilities |
|---|---|---|
| Equity contracts | $ 12,396,166 | $ 11,438,239 |
| Interest rate contracts | 74,047,150 | 74,221,929 |
| Commodity contracts | 4,847,043 | 4,832,365 |
| Foreign exchange contracts | 57,956 | 387,618 |
| Total gross derivative contracts | $ 91,348,315 | $ 90,880,151 |

NOTE 16

## Reverse Repurchase Agreements

| | At 31 December 2019 | 2018 |
|---|---|---|
| Assets - Reverse repurchase agreements | | |
| Gross amounts | $ 290,536 | $ 933,534 |
| Amounts offset in the statement of financial position | (186,810) | (776,094) |
| Net amounts presented in the statement of financial position | $ 103,726 | $ 157,440 |
| Liabilities - Repurchase agreements | | |
| Gross amounts | $ 186,810 | $ 776,094 |
| Amounts offset in the statement of financial position | (186,810) | (776,094) |
| Net amounts presented in the statement of financial position | $ — | $ — |

The Company manages credit exposure arising from reverse repurchase agreements and repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties.

Reverse repurchase agreements and repurchase agreements are *collateralised primarily by receiving or pledging securities, respectively.* Typically, the Company has rights of rehypothecation with respect to the securities collateral received under reverse repurchase agreements. The counterparty generally has rights of rehypothecation with respect to the securities collateral received from the Company under repurchase agreements.

The Company monitors the fair value of underlying securities in comparison to the related receivable or payable, including accrued interest, and as necessary, transfers or requests additional collateral as provided under the applicable agreement to ensure transactions are adequately collateralised.

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

At 31 December 2019, as a result of entering into reverse repurchase agreements, the Company obtained collateral with a fair value, including accrued coupon interest, of $290,387 (2018: $936,740). Also at 31 December 2019, the Company had repurchase agreements with collateral posted having a fair value including accrued coupon interest of $186,565 (2018: $778,667). The sale and purchase obligations under reverse repurchase agreements and repurchase agreements are collateralised by U.S. government securities, to the extent offsetting agreements with the same counterparty have not otherwise reduced the Company's or counterparties' gross exposure.

NOTE 17

## Other Creditors

| | At 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Amounts owed to brokers | $ 373,336 | $ 5,443 |
| Compensation payable | 31,941 | 47,242 |
| Corporation tax payable | 7,335 | 5,457 |
| Amounts owed to related parties | 6,546 | 12,793 |
| Accruals | 4,920 | 9,923 |
| Interest payable | 4,527 | 7,173 |
| Dividend payable | 773 | 111 |
| **Total** | $ 429,378 | $ 88,142 |

Compensation payable includes $4,060 (2018: $4,823) in respect of accrued social security costs.

NOTE 18

## Financial Risk Management

The Company is subject to various risks, including, but not limited to, market risk, currency risk, interest rate risk, off-balance sheet risk, credit risk, and liquidity risk. This note presents information about the Company's exposure to each of these risks, as well as its framework for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management framework is established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks. Risk management processes and limits are reviewed regularly to reflect changes in market conditions and the Company's activities.

The organisational structure is designed to facilitate risk management through three lines of defence. Risk is monitored first by the trading desk, each business area is responsible for managing this risk, in real time and in accordance with the Company's overall risk appetite.

Secondly, risk is monitored by the Portfolio Construction Group ("PCG"), the global independent risk control function for the Citadel Group. The support functions including Treasury, Finance, Legal and Compliance help to assess and monitor significant categories of the firm's risk to ensure risk is managed holistically on a day-to-day basis. The organisation framework for risk management is designed to facilitate reporting and escalation of risks to the Executive Operating Committee and the Board of Directors depending on their severity.

The third line of defence is the firm's internal audit function. The internal audit function provides an objective and independent assessment of the adequacy and effectiveness of the internal controls across the business and reports to the Company's Board of Directors and Audit Committee.

*Market Risk*
Market risk is the risk of loss in the value of financial instruments due to changes in market conditions. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying financial instruments are traded. The Company attempts to manage market risk in various ways, including through diversifying exposures, placing limitations on position sizes and hedging in related securities or derivative financial instruments. Categories of market risk include, but are not limited to, equity prices, interest rates and currency prices.

Equity price risk is the risk of loss due to changes in prices and volatilities of individual equities, baskets of equities and equity indices. Risk tolerances are set for both intra-day and end of day positions and are monitored by both the trading desk and independently by PCG.

The fair value of equities and related derivatives exposed to price risk were as follows:

| | At 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Equity securities owned | $ 400,859 | $ 893,420 |
| Equity securities sold, not yet purchased | (406,659) | (843,740) |
| Derivatives assets | 27,452 | 554,130 |
| Derivative liabilities | (22,461) | (528,608) |
| **Total** | $ (809) | $ 75,202 |

If the closing market price of all equities had been 5% higher or lower at 31 December 2019, the estimated change in market value is less than $400 (at 31 December 2018 less than $3,000). If the implied volatilities of all equity options had been 25% higher or lower at 31 December 2019, the estimated change in market value is less than $1,000 (at 31 December 2018 less than $1,000).

*Currency Risk*
Currency risk is the risk of loss due to the fluctuation of exchange rates. The Company may have exposure to non-U.S. currencies, directly or indirectly through its financial instruments, and as such is subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by government entities, central banks or supranational entities, or by the imposition of currency controls or other geopolitical developments. Additionally, the Company may hold balances in foreign currencies, including cash, due to/from brokers, and accrued expenses.

This risk is managed by each trading desk at the desk level and by the Treasury team at the Company level through monitoring and hedging, as appropriate, foreign exchange exposures on a daily basis. In respect of non-trading assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is maintained at an acceptable level by buying or selling foreign currencies at spot rates on a daily basis. If the closing market price of all currencies had been 5% higher or lower at 31 December 2019, the estimated increase/decrease in market value is less than $550 (at 31 December 2018 less than $1,500).

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

*Interest Rate Risk*
Interest rate risk is the risk of loss due to changes in the level, slope and curvature of yield curves. The Company is primarily exposed to interest rate risk through its interest rate swap market making activity. The business only trades cleared interest rate swaps and seeks to maintain a relatively flat risk ladder with automated hedging of the duration risk. If interest rates had been higher or lower by 50 basis points with all other variables held constant, the annualised change in total comprehensive income is estimated to be less than $2,500 (as at 31 December 2018 less than $5,000).

*Off-Balance Sheet Risk*
The Company enters into investment transactions which may represent off-balance sheet risk. Off-balance sheet risk exists when the maximum potential loss on a particular investment is greater than the value of such investment, as reflected on the statement of financial position. Off-balance sheet risk generally arises from the use of derivative financial instruments or short sales.

*Credit Risk*
Credit risk is the risk of financial loss due to the failure of a counterparty to perform according to the terms of a contract. The Company's credit risk arises mainly from cash placed with banks, derivative contracts and margin placed with brokers, clearing firms and central counterparties.

The Company is exposed to credit risk in its role as a trading counterparty to dealers and broker and dealer clients. The Company's credit exposure to broker and dealer clients is mitigated by the use of an industry-standard delivery versus payment through depositories and clearing banks.

The Company clears its futures and equity derivative transactions through highly rated clearing brokers, which also maintain the Company's positions. These positions are recorded as financial assets or liabilities at fair value through profit and loss. In addition, the clearing brokers provide the majority of the financing for these securities. This can result in a concentration of credit risk with a clearing broker.

The majority of the Company's interest rate swaps are self-cleared through the Company's SwapClear membership at LCH. As a requirement of being a direct clearing member the Company has contributed to the clearing house default fund which creates a credit risk exposure for the Company. Under the standard membership agreement, members are required to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet the resulting shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, management believes the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried on the statement of financial position for these arrangements.

The credit risk of exchange-traded and/or certain OTC derivatives, such as exchange-traded futures, exchange-traded options and centrally cleared OTC derivative financial instruments, is reduced by the rules or regulatory requirements, such as daily margining, applicable to individual exchanges, clearing houses and clearing members through which the instruments are traded and cleared.

The Company seeks to reduce its exposure to credit risk associated with counterparty nonperformance under bilateral OTC derivative financial instrument transactions by entering into master netting agreements and collateral arrangements with counterparties. These master agreements provide the Company with the right on a daily basis to demand collateral based on the Company's mark-to-market exposure to the counterparty, as well as, in the event of counterparty default, the right to liquidate collateral and offset receivables and payables covered under the same master netting agreement. In an effort to limit bilateral OTC credit risk, the Company generally enters into bilateral OTC derivative financial instrument transactions with major financial institutions. Additionally, the Company also seeks to manage credit risk by, among other factors, monitoring exposures to and reviewing creditworthiness of its counterparties and rebalancing trading and financing sources as deemed appropriate.

The maximum exposure to credit risk was as follows:

| | At 31 December | |
|---|---|---|
| | **2019** | **2018** |
| Amounts owed by brokers | $ 501,877 | $ 142,469 |
| Amounts owed by clearing house | 16,309 | 54,626 |
| Financial derivative assets | 57,596 | 549,390 |
| **Net amounts receivable from brokers and clearing house** | 575,782 | 746,485 |
| Cash and cash equivalents | 58,487 | 37,343 |
| **Total** | $ 634,269 | $ 783,828 |

The Company has no financial assets which are past due or impaired. Cash and cash equivalents are held at JP Morgan Chase and The Bank of New York Mellon, rated Aa2 and Aa1, respectively, by Moody's. Amounts owed by brokers are principally receivable from Merrill Lynch International and Citibank NA, rated A+ by Fitch and Aa3 by Moody's, respectively.

*Liquidity Risk*
Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company is subject to liquidity standards under Section 7 of the Prudential Sourcebook for Investment Firms ("IFPRU") and therefore assesses the adequacy of its liquid resources by reference to its Individual Liquidity Adequacy Assessment ("ILAA"). The ILAA includes an assessment of the Company's compliance with the FCA systems and controls requirements and detailed stress testing of the liquidity position. The Company seeks to maintain a high quality liquidity buffer of at least $58,000 (2018: $69,000) as part of its liquid resources. The policy for managing liquidity aims to ensure that the Company will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company maintains a liquid statement of financial position with a liquidity ratio of 49.62% at 31 December 2019 (2018: 35.96%), representing liquid assets as a percentage of net asset value. Liquid assets include cash and cash equivalents and the liquid asset buffer.

Substantially all of the Company's non-derivative financial liabilities are payable on demand or in accordance with normal trade settlement cycles. As at 31 December 2019, the carrying value of non-derivative financial liabilities is $1,304,953 (2018: $1,786,023) which are due within less than 1 month (2018: less than 1 month).

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

The tables below analyse the Company's derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to the timing of cash flows:

| At 31 December 2019 | Less than 7 days | 7 days to 1 month | 1 to 12 months | More than 12 months |
|---|---|---|---|---|
| Total return swaps on common stock | $ — | $ — | $ — | $ 1,921 |
| Options | — | 7,099 | 13,323 | 3 |
| Forwards | 1,979 | 3,775 | 11 | — |
| Warrants | 13 | — | — | — |
| Futures | 11,646 | 76,025 | 75,104 | — |
| Interest rate swaps | 59 | 1,740 | 16,624 | 786,718 |

| At 31 December 2018 | Less than 7 days | 7 days to 1 month | 1 to 12 months | More than 12 months |
|---|---|---|---|---|
| Total return swaps on common stock | $ 79 | $ 279 | $ 3,126 | $ — |
| Options | 69 | 53,829 | 457,710 | 6,783 |
| Forwards | 1,688 | 57 | — | — |
| Warrants | 1 | — | 6 | — |
| Futures | 33,888 | 124,595 | 101,253 | 2,068 |
| Interest rate swaps | 11 | 567 | 19,253 | 529,732 |

*Other Risks*

In 2017, the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that the FCA will no longer persuade nor compel banks to submit rates for the calculation of LIBOR and other reference rates after 2021. As a result of this and other announcements made by regulators regulating LIBOR and other Inter-Bank Offered Rates ("IBORs"), it is uncertain whether or for how long these rates will continue to be viewed as acceptable market benchmarks, what rate or rates may become accepted alternatives, or what effect any such changes may have on the financial markets for LIBOR and IBOR linked financial instruments. Until their discontinuance, CSEL may undertake transactions in instruments that are valued, or enter into contracts which determine payment obligations, by reference to LIBOR or an IBOR. Regardless of the regulators and market participants working to develop successor rates and transition mechanisms to replace an IBOR, the termination of LIBOR and the other IBORs presents risks to the Company. Some of the currently identified risks include the risk that an acceptable transition mechanism may neither be found nor be suitable for the Company, the risk that the transition may lead to increased volatility and illiquidity in markets or financial instruments that are tied to these rates, or the risk that the Company could experience increased difficulty in, or costs associated with borrowing, all of which could adversely affect the Company's performance. In addition, any alternative reference rate and any pricing adjustments required in connection with the transition may impose costs on the Company or may be unsuitable for the Company, resulting in costs incurred to close out positions and enter into replacement trades.

The Company is subject to risks associated with unforeseen or catastrophic events, including terrorist attacks, natural disasters, and the emergence of a pandemic, which could create economic, financial, and business disruptions. These events could lead to operational difficulties that could impair the Company's activities. The Company manages this risk through continuity and resiliency planning.

**NOTE 19**

## Capital Management

The Company is subject to the EU's Capital Requirements Regulation ("CRR"), supplemented by the FCA IFPRU. In accordance with CRR, the Company maintains a capital base that is appropriate to support the development of the business and ensure regulatory capital requirements are met at all times.

The Company's capital resources are entirely made up of Common Equity Tier 1 permanent capital. CSEL has no long-term debt and no intangible assets to deduct. There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities.

At 31 December 2019, the Company's Tier 1 capital was $221,442 (2018: $329,550). The Company's individual capital guidance was $139,672 (2018: $172,810) and the Company's surplus total capital over individual capital guidance was $81,770 (2018: $156,740).

**NOTE 20**

## Called Up Share Capital

As of 31 December 2019, the Company had 193,000,000 issued and outstanding common shares, at a par value of $1.00 per share as well as 1 issued and outstanding common share at a par value of £1.00 per share. Par value is not expressed in thousands. There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

Transactions in share capital (expressed in thousands) were as follows:

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Opening balance | 193,000 | 173,000 |
| *Shares issued and fully paid* | — | 20,000 |
| Ending balance | 193,000 | 193,000 |

# Notes to Financial Statements

*(Expressed in U.S. dollars in thousands)*

NOTE 21

## Net Cash Inflow from Operating Activities

| | For the year ended 31 December | |
|---|---|---|
| | 2019 | 2018* |
| Operating profit | $ 41,251 | $ 108,426 |
| Net (gains)/losses due to exchange rate changes on cash and cash equivalents | (6) | 233 |
| Decrease/(increase) in financial assets at fair value through profit and loss | 1,332,930 | (609,542) |
| Decrease/(increase) in reverse repurchase agreements | 53,697 | (12,575) |
| Increase in trade receivables | (324,185) | (30,928) |
| Decrease/(increase) in receivable from affiliate | 380 | (307) |
| (Decrease)/increase in financial liabilities at fair value through profit and loss | (1,343,054) | 1,371,504 |
| Increase/(decrease) in other creditors | 341,341 | (659,071) |
| **Net cash inflow from operating activities** | $ 102,354 | $ 167,740 |

*As restated, see Note 3 for further information.

NOTE 22

## Parent Undertaking and Ultimate Controlling Party

The Company's immediate parent at 31 December 2019 was CSHC Europe LLC, a Delaware limited liability company. CSHP is the parent undertaking of the largest group of undertakings to consolidate these financial statements. The ultimate controlling party is Kenneth Griffin. The registered address of CSHP is: c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, 19801 USA.

NOTE 23

## Subsequent Events

The Company has performed an evaluation of subsequent events through 2 April 2020, which is the date the financial statements were available to be issued.

On 24 January 2020, Katrina Manson was appointed as a Director of the Company.

On 30 March 2020, Mark Wright resigned as a Director of the Company.

Subsequent to the balance sheet date COVID-19 has developed rapidly, an example of a pandemic risk addressed in the Other Risk note. The Company has managed the business and economic impacts through the report date. Given the uncertainty of COVID-19 outcomes, the ultimate impacts are currently not quantifiable and Management have assessed this as a non-adjusting post-balance sheet event.

The Company intends to convert to reporting in accordance with the International Financial Reporting Standards as adopted by the UK for the reporting period ending 31 December 2020 and a full assessment of the impact of the conversion is currently being undertaken. The Company does not anticipate a material impact to its financial position as a result of the conversion.

# Appendix: Independent Auditors' Report to the Directors of Citadel Securities (Europe) Limited

## Report on the audit of the country-by-country information

### Opinion

In our opinion, Citadel Securities (Europe) Limited's country-by-country information for the year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2019 in the Annual Report and Financial Statements.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the final section of the Annual Report and Financial Statements containing the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the Directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

### Conclusions relating to going concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the country-by-country information is not appropriate; or
- the Directors have not disclosed in the country-by-country information 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 country-by-country information is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

# Appendix: Independent Auditors' Report to the Directors of Citadel Securities (Europe) Limited

## Reporting on other information

The other information comprises all of the information in the Annual Report and Financial Statements other than the country-by-country information and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the country-by-country information does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the country-by-country information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the country-by-country information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the country-by-country information 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 based on these responsibilities.

## Responsibilities for the country-by-country information and the audit

*Responsibilities of the Directors for the country-by-country information*

As explained more fully in the Directors' Responsibilities Statement set out on page iii, the Directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the final section of the Annual Report and Financial Statements and accounting policies in note 3 to the Annual Report and Financial Statements, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, 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.

*Auditors' responsibilities for the audit of the country-by-country information*

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this country-by-country information.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

*Use of this report*

This report, including the opinion, has been prepared for and only for the Company's Directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2nd April 2020

# Appendix: Country-by-Country Reporting

*(Expressed in U.S. dollars in thousands)*

## Basis of Preparation

The disclosures contained in this report have been prepared in accordance with Country-by-Country Reporting ("CBCR") requirements under the Capital Requirements Directive IV ("CRD IV"). Citadel Securities Europe Limited ("the Company") is a FCA regulated IFPRU full scope investment firm and is therefore within the scope of CRD IV.

The disclosures have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

The Company has operations in the United Kingdom ("UK") and the Republic of Ireland ("Ireland"). The principal activity of the Company is to trade on a proprietary basis for its own account. Additionally the Company provides trade agency services and support, trade execution, portfolio management, trading algorithm and software development and other support services to affiliated Citadel Securities Group entities.

In the disclosures that follow:

*Turnover*
Turnover is reported as net revenue on the statement of comprehensive income. The geographical distribution of turnover is based primarily on the location of the office recording the transaction.

*Number of Employees on a Full Time Equivalent Basis*
The number of employees on a full time equivalent basis is reported as an average number of employees, analysed as to geography.

*Profit or Loss Before Taxation*
Profit or loss is reported on a consolidated basis for each country.

*Tax on Profit or Loss*
Tax on profit or loss, for the purposes of country-by-country reporting, is interpreted as the corporation tax paid/refunded in each geographical jurisdiction in the year.

The following table summarises information required for the purpose of CBCR:

**COUNTRY-BY-COUNTRY REPORTING FOR THE YEAR ENDED 31 DECEMBER 2019**

| Jurisdiction | Average number of employees | Turnover | Profit/(loss) before taxation | Accounting tax charge | Corporation tax paid |
|---|---|---|---|---|---|
| UK | 113 | $ 168,767 | $ 27,487 | $ 9,374 | $ 6,840 |
| Ireland | 7 | 6,356 | (2,466) | 14 | 7 |
| **Total** | 120 | $ 175,123 | $ 25,021 | $ 9,388 | $ 6,847 |