

**FAIRFX PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**



# FairFX PLC

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# FairFX PLC

## DIRECTORS AND ADVISORS

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<b>Directors:</b>	I A I Trafford – Taylor J Hickman J Bean S England A Quirke
<b>Company Secretary:</b>	A Quirke
<b>Registered Number:</b>	05539698 (England and Wales)
<b>Registered Office:</b>	Third Floor, Thames House Vintners Place 68 Upper Thames Street London EC4V 3BJ England
<b>Banker:</b>	Barclays Bank Plc 11 <sup>th</sup> Floor, 1 Churchill Place Canary Wharf London E14 5HP England
<b>Auditor:</b>	KPMG LLP One Snowhill Snow Hill Queensway Birmingham West Midlands B4 6GH England
<b>Solicitors:</b>	Bates Wells & Braithwaite London LLP 10 Queen Street Place London EC4R 1BE England

# FairFX PLC

## DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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### About FairFX

FairFX is a leading challenger brand in banking and payments that disintermediates the incumbent banks with a superior user experience and low-cost operating model. Our business enables personal and business customers to make easy, low-cost multi-currency payments in a broad range of currencies and across a range of products all via one integrated system. The FairFX platform facilitates payments either direct to Bank Accounts or at 32 million merchants and over 1 million ATM's in a broad range of countries globally via Mobile apps, the Internet, SMS, wire transfer and MasterCard/VISA debit cards.

FairFX provides banking and payment services to both personal and business customers through four channels: Currency Cards, Travel Cash, International Payments and Bank Accounts. The Currency Card and Physical Currency offerings facilitate multiple overseas payments at points of sale and ATM's whereas the International Payments channel supports wire transfer foreign exchange transactions direct to Bank Accounts. For Corporates, FairFX has a market-leading business-expenses solution based around its corporate prepaid platform and card. This service can yield significant savings on a Corporate's expenses and procurement through better controls and improved transparency, and streamline the downstream administrative processes, thus saving costs.

The Company is wholly controlled directly and indirectly by FairFX Group PLC (Group), the ultimate parent company within the Group. FairFX Group PLC is listed on the AIM London Stock Market.

### Chief Executive's statement

2017 was a transformational year for FairFX and marked a step-change in delivering on the FairFX Group Plc (Group) strategy, with £936 million of Turnover (measured by the gross value of currency transactions sold) generated and achieving profitability for the first time since its admission to AIM.

The Company's core businesses have continued to perform well, with Currency Card and International Payments turnover up 17.9% and 19.5% respectively. The Company has also made further investment in its technology and platform functionality to improve user experience and facilitate repeat business and cross-selling. Significant enhancements were made in the year to both Corporate and Retail offerings across all platforms, namely web, mobile-responsive web-usage and app. Further development of user experience will remain a key theme for 2018 as we extract more efficiency from our functionally-rich platform.

As the business continues to scale and data protection issues increase in importance to the market and regulators, the Board believes that it is vital to continue to proactively insource more of its supply chain, thereby removing intermediaries, increasing the quality of services offered, optimising risk, and enabling greater control of processes and, in turn, improving gross margins.

The Company's continual focus on improving its offering and user experience has been integral to its success to date. As a challenger brand in a rapidly evolving sector, FairFX recognises the importance of delivering a service which fits with the changing needs of consumers and businesses in order to stay ahead of the competition and retain its customers. As such the Directors believe the Company is in a strong position to execute its ongoing strategy to grow its customer base, broaden its customer offering and further establish itself as a major player in the financial services sector.

### Trading performance

I am pleased to report on the Company's significant achievements during its financial year ended 31 December 2017 ("FY 2017"). We had another successful year with strong turnover and revenue growth coupled with a move into full year profitability for the first time since the admission of the Group to AIM. The results demonstrate how the stated strategy of the Company, namely adding scale and efficiency coupled with product innovation are bearing fruit.

# FairFX PLC

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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Company turnover, as represented by gross value of currency transactions sold, rose 17.32% to £936 million (2016: £0.8 billion), generating a profit before tax, of £0.5 million (2016: loss £1.4 million). Within the total turnover, Corporate Cards was £130.2 million, up 60.54% (2016: £81.1 million). Foreign exchange dealing turnover contributed £481.7 million representing an increase of 20.52% (2016: £399.7 million).

Within Prepaid Currency Cards and Travel Cash, the Corporate Expenses Platform, which enables businesses to better control their expenses and procurement, continued its strong year-on-year growth trend, up 60.6% on the previous year to £130.3 million. On the Retail consumer side, the prepaid card showed modest growth, rising 2.2% to £224.9 million whilst Travel Cash fell by 5.8% to £47.7 million. The performance on cards within Retail is encouraging when measured against the high level of competition in this space and we will be launching additional features in 2018 which should further boost growth. The performance in Travel Cash was partly due to reducing the amount we were prepared to pay to acquire a customer to fit within our policy, implemented in 2017, to cap cost per acquisition (CPA) for all of our products at less than or equal to the year 1 value of a customer.

The Company's push into the corporate market can be demonstrated by the growth of corporate turnover as % of total turnover. For FY 2017, corporate turnover was 52.3% (2016: 45.5%) of total turnover, an increase of 15%.

Company revenue increased 33% to £13.6 million (2016: £10.2 million) with revenue margin (revenue over turnover) improving to 1.45% (2016: 1.28%), demonstrating that the Company can deliver sustainable top line growth whilst more than maintaining margins. Revenue growth was driven by International Payments up 35.3% to £5.1 million and Currency Cards up 33.4% to £8.1 million.

Gross profit was £10.4 million (2016: £7.5 million), up 39.1% on 2016. Company gross profit is stated after the deduction of direct costs which rose by 16.6% to £3.2 million (2016: £2.7 million). The gross profit margin (gross profit over revenue) increased to 76.6% (2016: 73.3%) showing that the focus on costs in the year is bearing fruit and this trend is expected to continue into 2018.

Company overheads increased to £9.9 million (2016: £8.9m), an increase of 11.1% as the Company continues to invest for growth, most notably in adding talent into design, product management and development.

The profit before tax of £0.5m (2016: loss £1.4m) is a milestone result for the Company following the investments made by the business in previous years.

The net cash position of the Company at 31<sup>st</sup> December 2017 was £27.2 million, comprising £17.2 million of client funds and £10.0 million of available cash. Accordingly, the Company has sufficient cash resources to continue implementing its growth strategy.

### People

The Company added three directors to the Board in 2017 (James Hickman, Simon England and Tony Quirke). They bring a wealth of payments experience and will help drive the business forward.

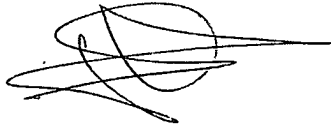
### Strategy

The Company will contribute to the Group Strategy by driving through business efficiencies through a combination of increasing scale, selective internalisation of the supply chain and improved customer experience of our products. And will continue to roll out innovative new products.

# **FairFX PLC**

## **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

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A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

**Ian Trafford - Taylor**  
**Chief Executive Officer**  
27 June 2018

# FairFX PLC

## DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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The Directors' present their annual report and consolidated financial statements for the year ended 31 December 2017.

### Financial reporting

The financial statements for the year ended 31 December 2017 are set out on pages 10 to 33 for FairFX Plc. These have been prepared in accordance with the Company's accounting policies under International Financial Reporting Standards (IFRS) as adopted by the European Union.

### Principal activities

The principal activities of the Company during the year were to provide foreign exchange payment services to private clients and corporations through prepaid currency cards, travel cash and international money transfers. The Company is authorised by the Financial Conduct Authority under the Payment Services Regulations 2009 for the provision of payment services.

The Company is a wholly owned subsidiary through direct and indirect holdings of Fair FX Group PLC.

### Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: nil).

### Directors

The following directors have held office during the accounting period:

I A I Trafford – Taylor  
J Hickman – Appointed 03/05/2017  
J Bean  
S England – Appointed 03/05/2017  
A Quirke – Appointed 03/05/2017

### Auditor

KPMG LLP have expressed their willingness to continue in office as auditors and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

### Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors is aware of that information.

### Going concern

Based on the Company's budgets and financial projections, the Directors are satisfied that the business is a going concern and therefore the financial statements have been prepared on a going concern basis. This assessment is based on whether there is sufficient liquidity and financing to support the business, the post balance sheet trading of the Company, the regulatory environment and the effectiveness of risk management policies.

The Directors' Report was approved by the Board on 27 June 2018 and signed on its behalf by:



**I A I Trafford-Taylor**  
Chief Executive Officer

## **STATEMENT OF DIRECTORS' REPSONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



**I A I Stafford-Taylor**  
**Chief Executive Officer**



# FairFX PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FairFX PLC

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### Opinion

We have audited the financial statements of FairFX Plc ("the company") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

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

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

# FairFX PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FairFX PLC

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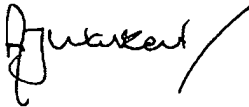
### Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

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



**Andrew Walker (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
27 June 2018

# FairFX PLC

## STATEMENT OF COMPREHENSIVE INCOME AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Gross value of currency transactions sold	3.1b	936,593,130	798,300,641
Gross value of currency transactions purchased	3.1b	(923,028,865)	(788,105,667)
<b>Revenue on currency transactions</b>	<b>4</b>	13,564,265	10,194,974
Direct costs		(3,177,790)	(2,725,788)
<b>Gross profit</b>		10,386,475	7,469,186
Administrative expenses		(9,900,062)	(8,909,376)
<b>Profit/(loss) before tax and from operations</b>	<b>5</b>	486,413	(1,440,190)
Tax Credit	8	148,463	-
<b>Profit/(loss) for the year</b>		634,876	(1,440,190)

All income and expenses arise from continuing operations. There are no differences between the profit for the year and total comprehensive income for the year.

The notes on pages 14 to 33 form an integral part of these financial statements.

# FairFX PLC

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9a	104,634	75,258
Intangible assets	9b	143,757	-
Deferred tax asset		511,912	-
		<u>760,303</u>	<u>75,258</u>
<b>Current assets</b>			
Inventories	10	185,432	229,905
Trade and other receivables	11	3,491,340	3,245,441
Derivative financial assets	15	303,775	223,884
Cash and cash equivalents	12	27,193,581	8,523,985
		<u>31,174,128</u>	<u>12,223,215</u>
<b>TOTAL ASSETS</b>		<u>31,934,431</u>	<u>12,298,473</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to Equity holders</b>			
Share capital	13	10,104,753	10,104,753
Share premium		5,428,121	5,428,121
Share based payment reserve		1,123,525	647,114
Retained deficit		(11,369,873)	(12,004,749)
<b>Total equity</b>		<u>5,286,526</u>	<u>4,175,239</u>
<b>Current Liabilities</b>			
Trade and other payables	14	26,502,702	7,975,277
Derivative financial liabilities	15	145,203	147,957
		<u>26,647,907</u>	<u>8,123,234</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>31,934,431</u>	<u>12,298,473</u>

The notes on pages 14 to 33 form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 27 June 2018 and were signed on its behalf by:



**I A I Stafford-Taylor**  
Director

Company Registration number: 05539698

# FairFX PLC

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Share based payment	Retained deficit	Total
	£	£	£	£	£
Balance as at 1 January 2016	122,150	5,428,121	646,113	(10,564,559)	(4,368,175)
Loss for the year	-	-	-	(1,440,190)	(1,440,190)
Share issued in year	9,982,603	-	1,001	-	9,983,604
Share based payment charge	-	-	-	-	-
Balance as at 31 December 2016	10,104,753	5,428,121	647,114	(12,004,749)	4,175,239
Profit for the year	-	-	-	634,876	634,876
Shares issued in the year	-	-	-	-	-
Share based payment charge (Note 17)	-	-	476,411	-	476,411
Balance as at 31 December 2017	10,104,753	5,428,121	1,123,525	(11,369,873)	5,286,526

The notes on pages 14 to 33 form an integral part of these financial statements.

The following describes the nature and purpose of each reserve within owners' equity:

Share capital	Amount subscribed for shares at nominal value.
Share premium	Amount subscribed for shares in excess of nominal value.
Share based payment	Fair value of share options granted to both directors and employees.
Retained deficit	Cumulative profit and losses are attributable to equity shareholders.

# FairFX PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
Profit/(loss) for the year		634,876	(1,440,190)
<b>Cash flows from operating activities</b>			
<i>Adjustments for:</i>			
Depreciation		36,991	53,423
Share based payment charge		112,961	1,001
Deferred Tax Credit		(148,463)	-
(Increase) in trade and other receivables		(245,899)	(1,280,438)
(Increase) in derivative financial assets		(79,891)	(108,173)
Increase in trade and other payables		18,527,425	(1,565,275)
Increase in derivative financial liabilities		(2,753)	(551,284)
Decrease/(increase) in inventories		44,473	(134,811)
<b>Net cash flow (used by) / from operating activities</b>		<u>18,879,720</u>	<u>(5,025,747)</u>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(66,367)	(47,927)
Acquisition of intangibles		(143,757)	-
<b>Net cash used in investing activities</b>		<u>(210,124)</u>	<u>(47,927)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		-	10,358,100
Costs directly attributable to share issuance		-	(375,497)
<b>Net cash from financing activities</b>		<u>-</u>	<u>9,982,603</u>
<b>Net increase in cash and cash equivalents</b>		18,669,596	4,908,929
<b>Cash and cash equivalents at the beginning of the year</b>		8,523,985	3,615,056
<b>Cash and cash equivalents at end of the year</b>	12	<u>27,193,581</u>	<u>8,523,985</u>

The notes on pages 14 to 33 form an integral part of these financial statements.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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### 1. General information

FairFX Plc (the "Company") is a limited liability company incorporated and domiciled in England. These financial statements comprise the Company. The Company is primarily involved in providing foreign currency via technology platforms offered on the internet.

The Company's financial statements for the year ended 31 December 2017 were authorised for issue on 27 June 2018 and the Company's statement of financial position signed by I A I Strafford - Taylor on behalf of the Board.

### 2. New standards, amendments and interpretations to published standards

The Company applied all applicable IFRS standards and all applicable interpretations published by the International Accounting Standards Board (IASB) and its International Financial Reporting Interpretations Committee (IFRIC) for the year ended 31 December 2017.

Adoption of new and revised accounting standards and interpretations:

- IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)*
- IAS 7 *Disclosure Initiative*

The adoption of the new applicable standards has not had a significant impact on the financial reporting of the Company.

The following standards and interpretations (and amendments thereto) have been issued by the IASB and the IFRIC which are not yet effective and have not been adopted, many of which are either not relevant to the Company or have no material effect on the financial statements of the Company.

#### A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. It affects the timing of recognition of revenue items, but not generally the overall amount recognised. The standard will come into force with effect from the Company's financial statements for the year ending 31 December 2018.

A preliminary review exercise has taken place and the Company has concluded that the introduction of the new standard will not have a material impact on its results or financial position.

#### B. IFRS 9 *Financial Instruments*

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard will come into force with effect from the Company's financial statements for the year ending 31 December 2018.

##### (i) *Classification – Financial assets*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income (FVOCI), or at fair value through profit or loss. The changes from the classification under IAS 39 are not expected to be significant for the Company.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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### *(ii) Impairment – Financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

Overall, the introduction of IFRS 9 is likely to result in companies carrying a larger provision balance and recognising losses earlier. However, the profit and loss effect is broadly one of timing, with the same amount of provision per case ultimately charged to profit.

The Company is in the process of assessing the impact of the new standard and does not believe that its financial assets are at risk of material impairment losses in the scope of the IFRS 9 impairment model.

### *(iii) Classification – Financial liabilities*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The changes from the classification under IAS 39 are not expected to be significant for the Company.

### *C. IFRS 16 Leases*

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.



# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company has not yet completed its assessment of the potential impact on its consolidated financial statements. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases on office buildings. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

### *D. Other standards*

	<b>Effective Dates *</b>
IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions (Amendments)</i>	01 January 2018
IFRS 4 <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	01 January 2018
IAS 40 <i>Transfers of Investment Property</i>	01 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	01 January 2018
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	01 January 2019
IFRS 9 <i>Prepayment Features with Negative Compensation</i>	01 January 2019
IAS 28 <i>Long-term Interests in Associates and Joint Ventures</i>	01 January 2019
IFRS 17 <i>Insurance Contracts</i>	01 January 2021

\* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Company prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard of interpretation but the need for endorsement restricts the Company's discretion to early adopt standards.

### **3. Basis of presentation and significant accounting policies**

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

The financial statements have been prepared on a historical cost basis with the exception of derivative financial instruments which are measured at fair value through profit or loss.

#### **3.1a Basis of presentation**

These financial statements are prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"). The financial statements are presented in sterling, the Company's functional currency.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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IFRS requires management to make certain critical accounting estimates and to exercise judgement in the process of applying the Company's accounting policies. These estimates are based on the directors' and best knowledge and past experience and are explained in note 3.21.

In the opinion of the directors, based on the Company's budgets and financial projections, they have satisfied themselves that the business is a going concern. The board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

### **3.1b Gross value of currency transactions sold and purchased**

The gross value of currency transactions sold and purchased represent the gross value of currency transactions undertaken with customers by the Company, where the net is reported as Revenue. These values are a non-GAAP measure and therefore disclosed as additional information in the consolidated statement of comprehensive income.

### **3.2 Foreign currency**

In preparing these financial statements, transactions in currencies other than the company and Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transaction. At each statement of financial position date monetary items in foreign currencies are translated at the rate prevailing at statement of financial position date.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in the consolidated statement of comprehensive income for the year.

### **3.3 Inventories**

Inventories comprise of stock of prepaid currency cards not yet distributed to customers. Inventories are valued at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. There are no currency amounts loaded on stock of prepaid currency cards.

### **3.4 Trade and other receivables**

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables include monies received from customers executing deliverable FX trades. Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any provision for impairment losses.

A provision for the impairment of trade receivables is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or significant delinquency in payments are considered indicators that the trade receivable may be impaired. Impairment on trade receivables is written off to the statement of comprehensive income when it is recognised as being impaired.

Other receivables are recognised at fair value.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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### 3.5 Cash and cash equivalents

These include cash in hand and deposits held at call with banks.

### 3.6 Trade and other payables

These arise principally from the receipt of goods and services and deliverable FX trades to be settled in accordance with instructions from customers.

These are initially recognised at fair value and then carried at amortised cost using the effective interest method.

### 3.7 Derivative financial assets and liabilities

Derivative financial assets and liabilities are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the income statement. The Company's derivative financial assets and liabilities at fair value through profit or loss comprise solely of forward foreign exchange contracts.

### 3.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 3.9 Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

### 3.10 Taxation

The tax expense represents the sum of the tax currently payable.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date.

### 3.11 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on difference tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 3.12 Pension Costs

The Company operates a defined contribution pension scheme and outsources the administration of the pension scheme to a third party. The Company contributes to the pension scheme in line with Auto-enrolment obligations as defined in the Pensions Act 2008 and passes on the employer and employee contributions to the pension scheme administrator on a monthly basis. The employer contributions are recognised as they occur through the payroll.

### 3.13 Investments in subsidiaries

There has been no investment in subsidiaries for the year ending 31 December 2017.

### 3.14 Income recognition

#### *(i) Deliverable FX trades (international payments)*

Revenue is recognised when a binding contract is entered into by a client and the margin is fixed and determined. The revenue, represented by the margin, is the difference between the rate offered to clients and the rate the Company receives from its liquidity providers.

#### *(ii) Currency cards*

There are two distinct revenue streams, FX card load orders and transaction-based charges. Revenue on FX card load orders onto non-GBP currency cards is recognised when a binding order is entered into by a customer, the margin is fixed and determined and the foreign currency has been loaded onto their currency card. The revenue, represented by the margin, is the difference between the rate offered to clients and the rate the Company receives from its liquidity providers. The transaction-based charges are recognised at the time the transaction is entered into by the customer and deducted from the customer's account.

### 3.15 Research and development

Research costs are expensed as incurred. Expenditure on IT software and development is recognised as an intangible asset when the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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### 3.16 Treatment of Research and Development Tax Credits

Research and development tax credits are treated as a government grant as defined under IAS20 – Accounting for Government Grants and Disclosure of Government Assistance. The tax credit claim is based on research and development activity carried on by staff and so any claim received is netted against administration expenses. The tax credit is recognised on receipt of funds from the Government.

### 3.17 Interest expense recognition

Interest expense is recognised as interest accrues, using the effective interest method, on the net carrying amount of the financial liability.

### 3.18 Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition or production cost less accumulated depreciation and impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following basis:

Plant and equipment	33%
Fixtures and fittings	20%
Leasehold improvements	10%

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

### 3.19 Share-based payments

Employees (including directors) receive remuneration in the form of share-based payment transactions from the Company, FairFX PLC, whereby employees render services as consideration for equity instruments (equity-settled transactions settled by the company's parent, FairFX Group PLC). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured as the difference between fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. The cost of equity-settled transactions with employees, is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model, further details of which are given in note 17

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. The share-based payment charge is expensed in the Company where the employee is contracted.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described on the previous paragraph.

### 3.20 Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

### 3.21 Critical judgements and estimations

#### Judgements

In the process of applying the company's accounting policies, management makes various judgements which can significantly affect the amounts recognised in the financial statements. They are also required to use certain critical accounting estimates and assumptions regarding the future that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial year. The critical judgements are considered to be the following:

#### *(i) Share based payments*

In order to calculate the charge for share-based compensation as required by IFRS 2, the Company makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 17. The accounting estimates and assumptions relating to these share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity. The critical estimate is the term of the share option to vest.

#### *(ii) Measurement of fair values*

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets and liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### *Measurement of fair values of derivative financial assets and liabilities*

The Company's accounting policies and disclosures require measurement of fair values with regard to derivative financial assets and liabilities. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the reporting date.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### 4. Revenue and segmental analysis

Segment results are reported to the Board of Directors (being the chief operating decision maker) to assess both performance and strategic decisions. The Board of Directors reviews financial information on revenue the following segments: Currency cards, FairPay, Dealing and Central (which includes overheads and corporate costs). The revenue is wholly derived from within the UK.

2017	Currency Cards	<u>International Payments</u>		Central	Total
		FairPay	Dealing		
	£	£	£	£	£
Segment revenue	8,124,165	786,828	4,321,612	331,660	13,564,265
Direct costs	-	-	-	(3,177,790)	(3,177,790)
Administrative expenses	-	-	-	(9,900,062)	(9,900,062)
Loss before tax and from operations	8,124,165	786,828	4,321,612	(12,746,252)	486,413
Total assets	-	-	-	31,934,434	31,934,434
Total liabilities	-	-	-	(26,647,907)	(26,647,907)
Total net assets	-	-	-	5,286,526	5,286,526

2016	Currency Cards	<u>International Payments</u>		Central	Total
		FairPay	Dealing		
	£	£	£	£	£
Segment revenue	6,016,606	773,823	3,002,024	402,521	10,194,974
Direct costs	-	-	-	(2,725,788)	(2,725,788)
Administrative expenses	-	-	-	(8,909,376)	(8,909,376)
Loss before tax and from operations	6,016,606	773,823	3,002,024	(11,232,643)	(1,440,190)
Total assets	-	-	-	12,298,473	12,298,473
Total liabilities	-	-	-	(8,123,234)	(8,123,234)
Total net assets	-	-	-	4,175,239	4,175,239

### 5. Profit/Loss before tax

Profit/(loss) before tax is stated after charging the following: -

	2017 £	2016 £
Operating lease - property	378,496	271,487
Depreciation of plant and equipment and fixtures and fittings	36,992	53,423
Net foreign currency differences	68,186	(119,507)
Research & development costs	1,152,809	902,643
Research and development tax credit	(301,032)	(220,020)

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Amounts charged by the Company's auditor are as follows: -

	2017 £	2016 £
<b>Audit fees: -</b>		
Company audit fees	40,000	40,000
<b>Total audit fees</b>	<b>40,000</b>	<b>40,000</b>
Other services: -		
Taxation services	-	-
Total non-audit fees	-	-
<b>Total Fees</b>	<b>40,000</b>	<b>40,000</b>

The above audit fee is payable solely to the Company's current auditor, KPMG LLP. These amounts are shown exclusive of VAT.

### 6. Staff costs

#### Number of employees

The average number of employees (including directors) during the year was:-

	2017 Number	2016 Number
Administrative staff	76	66

#### Employee costs

	2017 £	2016 £
Wages and salaries	4,769,952	3,587,934
Social security costs	567,279	417,660
Pension costs	23,028	10,008
	<b>5,360,259</b>	<b>4,015,602</b>

Further information regarding share options is given in note 17.

### 7. Directors' remuneration

	2017 £	2016 £
Emoluments	1,089,141	571,871

The total amount payable to the highest paid director in respect of emoluments was £482,586 (2016: £433,742).

Further information regarding share options is given in note 17.



# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### 8. Taxation

	2017	2016
	£	£
Current year tax expense	-	-
Deferred tax (Credit)	(148,463)	-
	<u>(148,463)</u>	<u>-</u>

#### Factors affecting tax charge for the period

The charge for the year can be reconciled to the (loss)/profit per the statement of comprehensive income as follows:

	2017	2016
	£	£
Profit/(loss) before taxation: Continuing operations	<u>486,413</u>	<u>(1,440,190)</u>
Taxation at the UK corporation rate tax of 19% (2016: 20%)	93,634	(288,038)
Capital allowances in arrears / (advance) of depreciation	(6,756)	672
Share based payments	-	200
Net impact of R&D tax credit claim	(160,601)	66,344
Expenses not deductible for tax purposes	13,541	8,447
Tax losses for which no deferred tax asset recognised	-	212,375
Deferred tax asset not previously recognised	(126,718)	-
Group relived losses	<u>38,437</u>	<u>-</u>
Total tax (credit) for the year	<u>(148,463)</u>	<u>-</u>

The Company has estimated losses of £9,126,793 (2015: £8,675,623) available for carry forward against future trading profits. The Company relieved losses of £169,057 to the Group in the year. Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is considered more likely than not. The decision to recognise any asset will be taken at such point recovery is reasonably certain. The Company has an unrecognised deferred tax asset of £1,756,908 (2015: £1,825,359) in respect of losses that can be carried forward against future taxable income for the period between one year and an indefinite period of time.

During the year the Group recognised a £511,912 deferred tax asset in relation to unexercised share options. Of this amount £148,463 was recognised in the current year's tax expense and £363,449 was recognised to equity.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### 9a. Property, plant and equipment

	Plant and machinery	Fixtures and fittings	Leasehold improve- ments	Total
	£	£	£	£
<b>Cost</b>				
At 1 January 2017	282,034	16,721	39,651	338,406
Additions	65,408	959	-	66,367
At 31 December 2017	<u>347,442</u>	<u>17,680</u>	<u>39,651</u>	<u>404,773</u>
<b>Depreciation</b>				
At 1 January 2017	239,867	11,457	11,824	263,148
Charge for the year	30,938	2,088	3,965	36,991
At 31 December 2017	<u>270,805</u>	<u>13,545</u>	<u>15,789</u>	<u>300,139</u>
<b>Net book value</b>				
At 31 December 2017	<u>76,637</u>	<u>4,135</u>	<u>23,862</u>	<u>104,634</u>
At 31 December 2016	<u>42,167</u>	<u>5,264</u>	<u>27,827</u>	<u>75,258</u>

### 9b. Intangible assets

	Software	Total
	£	£
<b>Cost</b>		
At 1 January 2017	-	-
Additions	143,757	143,757
At 31 December 2017	<u>143,757</u>	<u>143,757</u>
<b>Net book value</b>		
At 31 December 2017	<u>143,757</u>	<u>143,757</u>
At 31 December 2016	<u>-</u>	<u>-</u>

The intangibles under construction balance consists of costs incurred on software development projects that were not completed before the end of the reporting period.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### 10. Inventories

	2017 £	2016 £
Finished goods	185,432	229,905

The Company's inventories comprise stock of cards.

### 11. Trade and other receivables

	2017 £	2016 £
Trade receivables	2,416,489	1,942,412
Amounts due from group undertakings	-	244,038
Other receivables	427,473	748,851
Prepayments and accrued income	647,378	310,140
	3,491,340	3,245,441

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables, is included in Note 16.

### 12. Cash and cash equivalents

	2017 £	2016 £
Cash at bank	27,193,581	8,523,985

Included in cash and cash equivalents at 31 December 2017 was £17,154,619 of client funds (2016: £5,022,092).

### 13. Share capital

	2017 £	2016 £
<b>Authorised</b>		
101,047,530 ordinary shares of £0.10 each	10,104,753	10,104,753

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### 14. Trade and other payables

	2017 £	2016 £
Trade payables	25,278,080	6,803,255
Amounts due to Company undertaking	-	480,556
Taxation and social security	189,129	130,368

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Accruals and deferred income	1,035,493	561,098
	<u>26,502,702</u>	<u>7,975,277</u>
	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Current	<u>26,502,702</u>	<u>7,975,277</u>

### 15. Derivative financial assets and financial liabilities

#### 15.1 Derivative financial assets

##### Financial assets at fair value through profit or loss

	Fair Value 2017	Notional Principal 2017	Fair Value 2016	Notional Principal 2016
	£	£	£	£
Foreign exchange forward contracts	303,775	21,530,930	223,884	10,238,079
Total financial instruments at fair value	<u>303,775</u>	<u>21,530,930</u>	<u>223,884</u>	<u>10,238,079</u>

#### 15.2 Derivative financial liabilities

##### Financial liabilities at fair value through profit or loss

	Fair Value 2017	Notional Principal 2017	Fair Value 2016	Notional Principal 2016
	£	£	£	£
Foreign exchange forward contracts	145,203	21,366,917	147,957	10,169,959
Total financial instruments at fair value	<u>145,203</u>	<u>21,366,917</u>	<u>147,957</u>	<u>10,169,959</u>

### 16. Financial instruments

The Company's financial instruments comprise cash and various items arising directly from its operations. The main purpose of these financial instruments is to provide working capital for the Company. In common with other businesses, the Company is exposed to the risk that arises from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information is found throughout these financial statements.

#### 16.1 Principal financial instruments

The principal financial instruments of the Company, from which financial instrument risk arises, are as follows:

	2017	2016
	£	£
<b>Financial instruments held at amortised cost</b>		
Cash and cash equivalents	27,193,581	8,523,985
Trade and other payables	(26,502,702)	(7,975,277)
Trade and other receivables	<u>3,491,340</u>	<u>3,245,441</u>
	<b>2017</b>	<b>2016</b>

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

	£	£
<b>Financial instruments held at fair value through profit or loss</b>		
Derivative financial assets – Forward foreign exchange contracts	303,775	223,884
Derivative financial liabilities – Forward foreign exchange contracts	<u>(145,205)</u>	<u>(147,957)</u>

Trade and other payables generally have short time to maturity.

Forward foreign exchange contracts fall into level 2 of the fair value hierarchy. Since Level 2 comprises those financial instruments which can be valued using inputs other than quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices).

### 16.2 Financial risk management objectives and policies

#### Credit risk

The Company trades only with recognised, credit worthy customers. All customers who wish to trade on credit are subject to credit verification checks. Customer balances are checked daily to ensure that the risk of exposure to bad debts is minimised and margined accordingly. The Company's risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. The Company had no significant concentrations of risk with customers and counterparties at 31 December 2017.

The Company's exposure to credit related losses, in the event of non-performance by customers relates mostly to wholesale business. The risk on wholesale business is minimal as group policies require new customers to be reviewed for creditworthiness before standard payment and delivery terms and conditions are entered into. Individual credit terms are set and monitored regularly.

The Company's cash balances are all held with major banking institutions. The majority of trade receivables are due from credit worthy customers and or financial institutions and are automatically settled within a few days of arising.

The credit risks from other financial contractual relationships including other receivables are not considered material.

Where forward contracts are not fully settled by the maturity date, appropriate action is agreed with the customer to roll forward the contract to a future date.

The ageing of financial assets at the statement of financial position date is as follows:

2017	Current and not impaired £	Less than 3 months overdue £	4 to 6 months overdue £	Over 6 months overdue £	Individually impaired £	Total £
Trade and other receivables	3,491,340	-	-	-	-	3,491,340
Derivative financial assets	<u>303,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>303,775</u>
2016	Current and not impaired £	Less than 3 months overdue £	4 to 6 months overdue £	Over 6 months overdue £	Individually impaired £	Total £
Trade and other receivables	3,245,441	-	-	-	-	3,245,441
Derivative financial assets	<u>223,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>223,884</u>

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### Liquidity risk

Management of liquidity risk is achieved by monitoring budgets and forecasts and actual cash flows and available cash balances.

The daily settlement flows in respect of financial asset and liability, spot and swap contracts require adequate liquidity which is provided through intra-day settlement facilities.

Further details of the risk management objectives and policies are disclosed in the Principal risks and uncertainties section of the Strategic Report.

The table below analyses the Company's gross undiscounted financial liabilities by their contractual maturity date.

2017	On demand and within 1 month £	Between 1 and 3 months £	Between 3 and 12 months £	Over 1 year £	Total £
Trade and other payables	26,502,702	-	-	-	26,502,702
Derivative financial liabilities	76,330	22,178	46,697	-	145,205
2016	On demand and within 1 month £	Between 1 and 3 months £	Between 3 and 12 months £	Over 1 year £	Total £
Trade and other payables	7,514,221	-	-	-	7,514,221
Derivative financial liabilities	18,959	57,292	71,706	-	147,957

### Market risk

Market risk arises from the Company's use of foreign currency. This is detailed below.

### Interest rate risk

The Company is subject to interest rate risk as its bank balances are subject to interest at a floating rate. Due to the current low levels of borrowings, the Company is not materially affected by changes in interest rates.

### Interest rate risk

The Company is subject to interest rate risk as its bank balances are subject to interest at a floating rate. Due to the current low levels of borrowings, the Group is not materially affected by changes in interest rates.

### Foreign currency risk

The Company's balance sheet currency exposure is primarily managed by matching currency assets with currency borrowings. The largest currency liabilities are created on entering into forward foreign currency transactions.

As at 31 December 2017, the Company is not sensitive to movements in the strength of Sterling as no material foreign currency balances are held.

### Fair value risk

The following table shows the carrying amount of financial assets and financial liabilities. It does not include a fair value as the carrying amount is a reasonable approximation of fair value, given the short-term nature of the financial instruments.

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

31 December 2017	Loans and receivables	Other financial liabilities	Total
	£	£	£
<b>Financial assets not measured at fair value</b>			
Cash and cash equivalents	27,193,581	-	27,193,581
Trade and other receivables	3,491,340	-	3,491,340
	<b>30,684,921</b>	<b>-</b>	<b>30,684,921</b>
<b>Financial liabilities not measured at fair value</b>			
Borrowings	-	-	-
Trade and other payables	-	26,502,702	26,502,702
	<b>-</b>	<b>26,502,702</b>	<b>26,502,702</b>
<b>31 December 2016</b>	<b>Loans and receivables</b>	<b>Other Financial Liabilities</b>	<b>Total</b>
	£	£	£
<b>Financial assets not measured at fair value</b>			
Cash and cash equivalents	8,523,985	-	8,523,985
Trade and other receivables	3,245,441	-	3,245,441
	<b>11,769,426</b>	<b>-</b>	<b>11,769,426</b>
<b>Financial liabilities not measured at fair value</b>			
Borrowings	-	-	-
Trade and other payables	-	7,975,277	7,975,277
	<b>-</b>	<b>7,975,277</b>	<b>7,975,277</b>

All financial instruments are classified as level 1 financial instruments in the fair value hierarchy, with the exception of Derivative financial assets and liabilities and Borrowings which are level 2 financial instruments.

### Capital management policy and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the income and capital return to the Company's shareholders.

The Company is subject to the following externally imposed capital requirements:

- as a public limited company, the Company is required to have a minimum issued share capital of £50,000; and
- as a company regulated by the Payment Service Regulations 2009, the Company is required to maintain a capital requirement of either 10% of fixed overheads for the preceding year or the initial capital requirement of €20,000, whichever is the higher.

On 24th June 2016, FairFX notified the FCA pursuant to its duty under Regulation 32(1)(a)(i) of the Payment Services Regulations 2009 ("PSRs") that it had been in breach of the FCA's capital requirements under Regulation 18(1) of the PSRs for the period from August 2014 to 23rd June 2017. The breach arose as the net proceeds from share issues by FairFX Group plc were used to make intra-group loans to FairFX Plc. FairFX Plc became aware in June 2016 that its understanding that capital held by FairFX Group plc could properly be included in its calculation of "own funds" for those purposes, was open to question. Viewed on a consolidated basis (as FairFX Plc then believed it was entitled to do), there would have been ample capital within the group to meet FairFX Plc's capital requirements. FairFX Plc and FairFX Group plc have taken prompt steps to capitalise inter-company loans from FairFX Group plc to FairFX Plc in

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

the amount of £9,982,603, with effect from 23rd June 2016 to remedy the breach and as a result has substantial surplus capital above the FCA's capital requirement.

### 17. Share options

The group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value of options granted has been calculated with reference to the Black-Scholes option pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

During the year ended 31 December 2017, there were a number of share-based payment transactions within the group.

These movements are disclosed within the tables below:

Date Granted	Exercise price (£)	At 1 January 2017 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	At 31 December 2017 Number
22/07/2014	0.07	200,000	-	-	-	200,000
22/07/2014	0.22	447,750	-	-	-	447,750
22/07/2014	0.36	4,025,050	-	-	(50,000)	3,975,050
28/09/2016	0.30	316,667	-	-	-	316,667
28/09/2016	0.30	316,667	-	-	-	316,667
28/09/2016	0.30	316,666	-	-	-	316,666
01/12/2016	0.27	100,000	-	-	-	100,000
01/12/2016	0.27	100,000	-	-	-	100,000
01/12/2016	0.27	100,000	-	-	-	100,000
18/01/2017	0.44	-	16,667	-	-	16,667
18/01/2017	0.44	-	16,667	-	-	16,667
18/01/2017	0.44	-	16,666	-	-	16,666
<b>Total Number of options</b>		<b>5,922,800</b>	<b>50,000</b>	<b>-</b>	<b>(50,000)</b>	<b>5,922,800</b>

The above share options issued in FairFX Plc have been granted to both Directors and employees of the Group. At 31 December 2017, there were unexercised share options amounting to 3.81% (2016: 5.74%) of the Company's total issued shares. Of the above options 5,772,800 (2016: 5,722,800) have been granted to Directors of the Company.

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant. Details of the inputs made into that model are disclosed in the table below.



# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

	At 1 January 2017	Granted during year	
Weighted average share price (£)	0.39	0.62	
Weighted average exercise price (£)	variable	variable	a
Expected volatility	36.4%	38.6%	b
Expected option life in years	5.3	9.1	
Risk-free rate	0.10%	0.10%	
Expected dividends	none	none	
Fair value of the options granted (£)	variable	0.20	c

- The weighted average exercise price varies dependent upon the amount stipulated in the individual option deeds. The exercise price ranges from £0.07 - £1.74.
- Expected volatility has been determined on the share price from date of admission up to 31 December in the year the options were granted
- A summary of the fair value of the options granted is summarised in the table below. If the fair value of the option was deemed to be nil it is marked accordingly.

	Exercise price (£)	Fair Value (£)
22/07/2014	0.07	0.28
22/07/2014	0.22	0.20
22/07/2014	0.36	0.12
22/07/2014	0.58	nil
22/07/2014	1.16	nil
22/07/2014	1.74	nil
28/09/2016	0.30	0.13
01/12/2016	0.27	0.11
18/01/2017	0.44	0.20

The total fair value of the options is £781,383 (2016: £668,422). The charge expensed to the statement of comprehensive income is £112,961 (2016: £1,001). During the year the Group recognised a £511,912 deferred tax asset in relation to unexercised share options. Of this amount £148,463 was recognised in the current year's tax expense and £363,449 was recognised to equity.

### 18. Financial commitments

As at 31 December 2017 the Company had the following annual commitments under non-cancellable operating leases. The total future value of the minimum lease payments is as follows:

	Land and buildings	
	2017	2016
	£	£
Not later than one year	290,760	290,760
Later than one year and not later than five years	1,124,008	1,414,768

# FairFX PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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1,414,768

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1,705,528

The Company signed a lease on its office premises on 13th November 2016 at an annual rental of £290,760. The lease runs until 12th November 2022.

### 19. Related party transactions

#### Key management personnel

Key management who are responsible for controlling and directing the activities of the Company comprises the executive Directors and senior management. The key management compensation is as follows: -

	2017	2016
	£	£
Salaries, fees and other short-term employee benefits	1,177,629	902,939

There are no other related party transactions which, as a single transaction or in their entirety, are or may be material to the Company and have been entered into by the Company or any other member of the Company during the year ended 31 December 2017.

### 20. Ultimate controlling party

Since 25 August 2017 no party has held a controlling interest in FairFX Group Plc and as such the Directors consider FairFX Group Plc to be ultimate controlling party.

### 21. Post balance sheet events

There were no post balance sheet events.