

# CMC 25

cmc markets years



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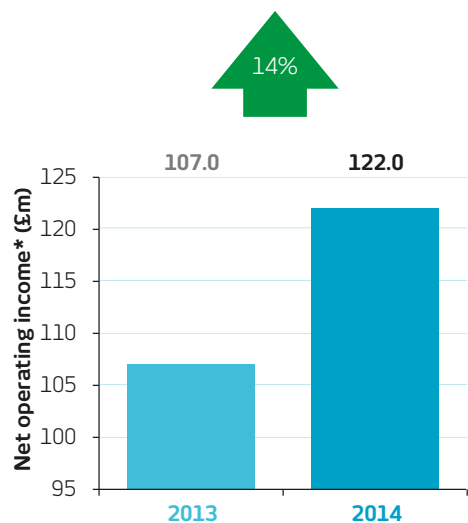
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# Highlights

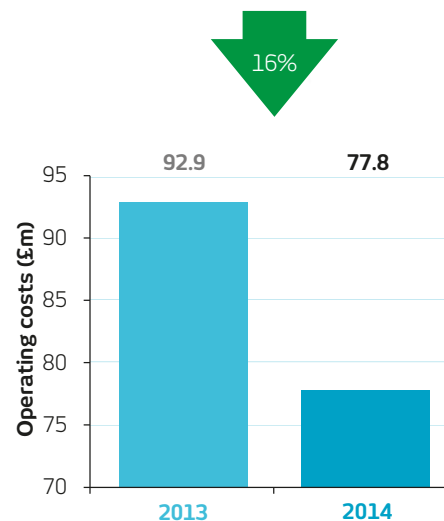
## Net operating income

Focus on client service and improvements to risk management strategy



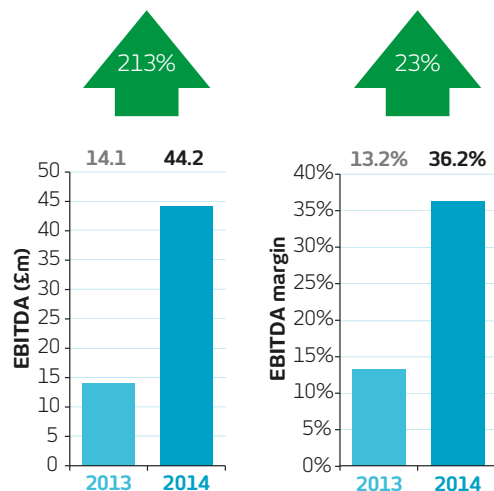
## Operating expenses

Full effect of prior year restructuring in combination with Next Generation platform efficiencies



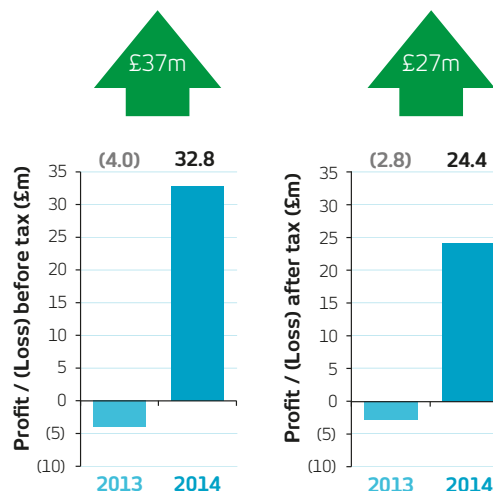
## EBITDA

Significant margin improvement due to both cost reduction and improved revenue



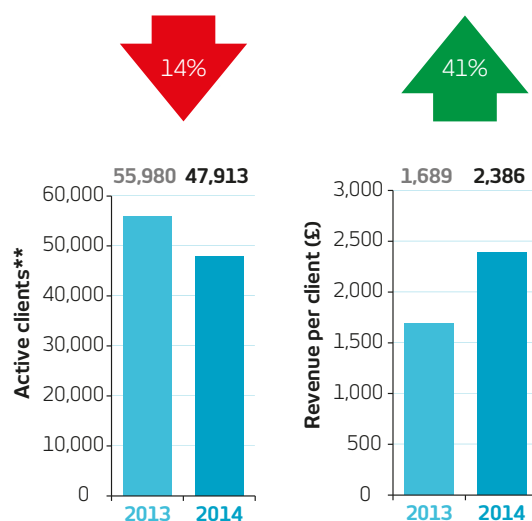
## Profit before tax

Turnaround from statutory loss to profit



## Active clients and revenue per client

Focus on client service and platform attracting premium clients



## Value of trades

Stability in mainly subdued markets



- > Own cash of £116.5 million
- > Regulatory capital solvency ratio of 18.62%
- > Full segregation of retail client money in all jurisdictions
- > Next Generation platform is now operational in 12 countries
- > 33 awards globally relating to the Next Generation platform and client service

\* Net operating income represents revenue net of client rebates payable to introducing partners who are not themselves trading counterparties less spread betting levies

\*\* Active clients represent those individual clients who have traded with or held positions with CMC Markets on at least one occasion during the financial year

\*\*\* Value of client trades represents the notional value of trades

# CEO Review



On the back of improved client service, an award winning platform and improved competitive dealing spreads, we have increased our EBITDA for the year by 213 per cent. A stunning performance by the team. I would also like to thank our clients for their support and loyalty.

I founded CMC Markets in 1989, and it is with great pride that this year we will be celebrating the Group's 25th anniversary. I am extremely proud of what has been achieved over the last twenty five years not only for the company but also for the industry. We have been at the forefront of major changes in the industry through technology and product innovation. We were the first company to create an online trading platform. We created the rolling cash spread bet and we were one of the first companies to bring product and market education to the retail sector. On the back of innovation we have become a global business with clients in over seventy countries around the world. Online platforms have generated greater transparency for the retail client; this has driven down dealing costs and spreads and created a more competitive environment for retail clients. I think it is fair to say that retail clients can now trade on spreads and prices that are comparable to the corporate client.

I believe that CMC Markets was instrumental in this innovation and will continue to be so.

During the year we have focused the business on client service and the continued evolution of our successful Next Generation trading platform. This approach has improved the Group's financial performance and reinforced CMC Markets appeal to active traders.

This was recognised with the Company winning 33 global industry awards for service, platform and education, with the accolade "2013 Financial Services Provider of the Year" from Shares magazine, being one of the highlights. The Next Generation platform was rolled out to our remaining European offices and has started to gain significant traction. In addition, our mobile proposition continues to grow and in March 2014, we executed over one million trades on mobile devices for the first time.

I am very pleased with the financial performance of the Group for the year. On the back of improved client service, an award winning platform\* and improved and competitive spreads, Net Operating Income has increased by 14% and we have reduced operating expenses by 16% through efficiencies and a more focused and targeted management structure. As a result, profit before tax for the year has seen a £37 million improvement on prior year. In addition, with own funds of £116 million and a regulatory capital ratio of 18.62%, the Group has continued to strengthen its Balance Sheet.

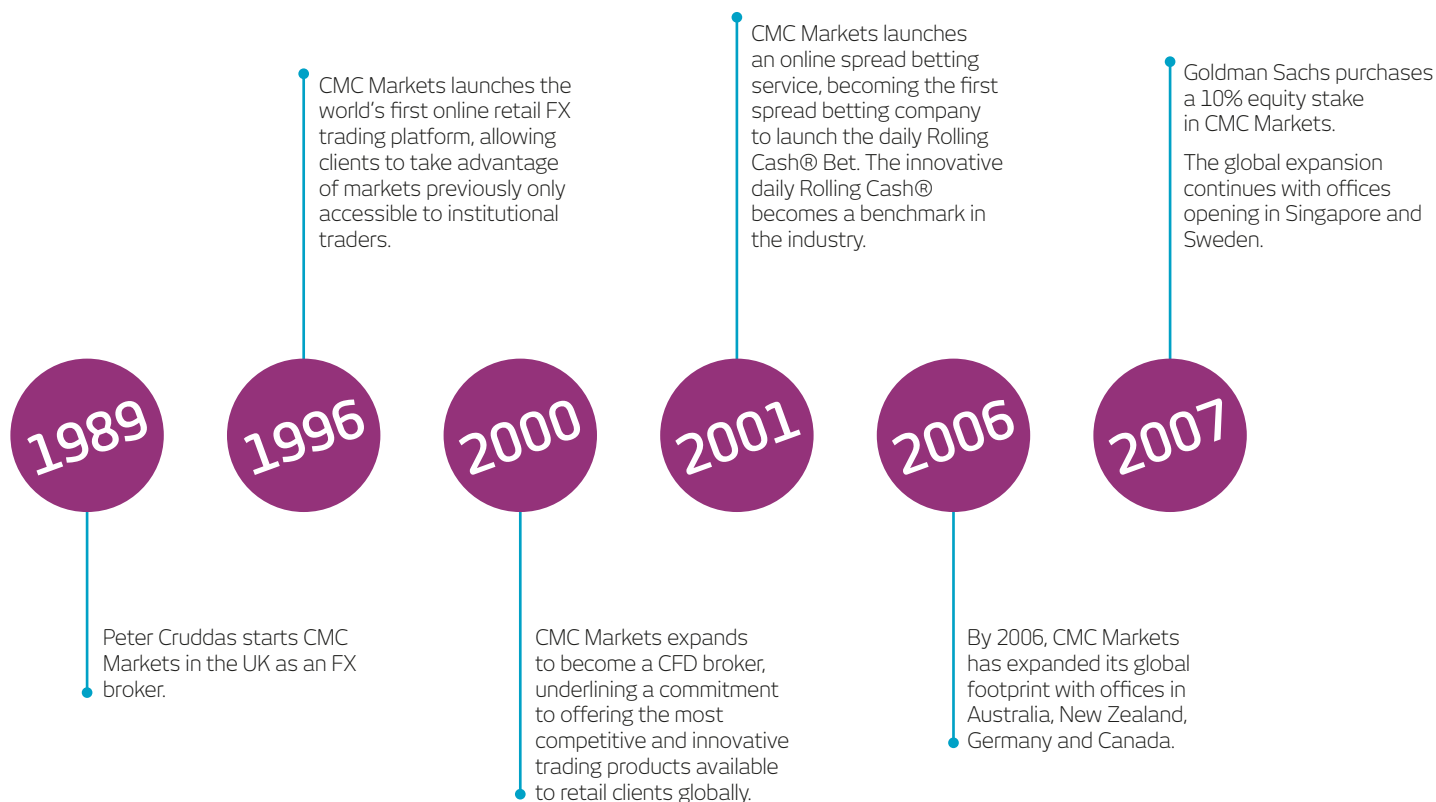
I would like to take this opportunity to thank our clients for their continued support as well as the CMC Markets team that have worked hard to put us in a great position for the future.

**Peter Cruddas**

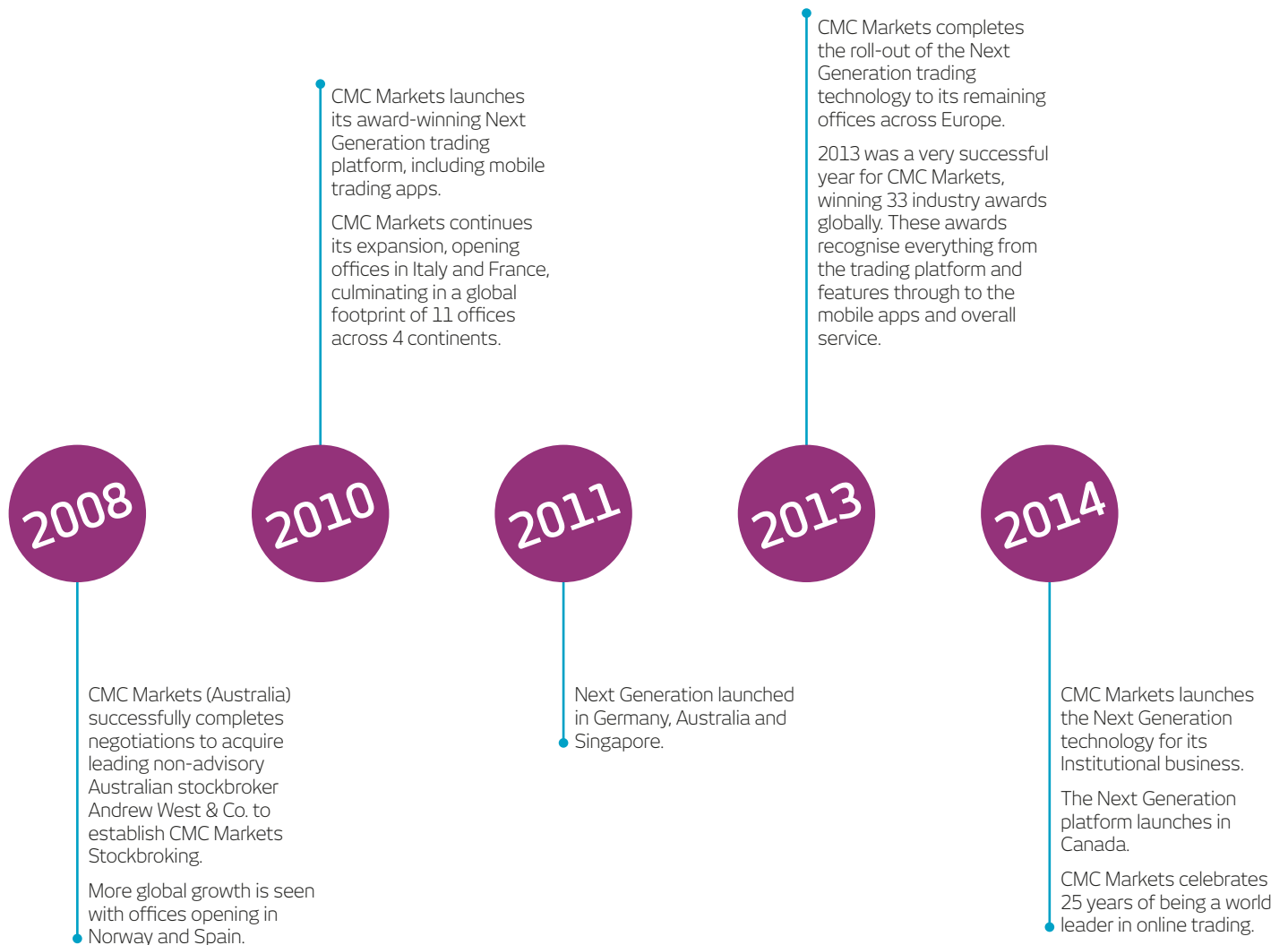
Chief Executive Officer

\* Awarded Best Online Trading Platform by Money AM and Shares 2013.  
Awarded Best Mobile and Tablet App in the Investment Trends 2013 UK Leveraged Trading Report based on highest user satisfaction amongst spread betters and FX traders.  
Awarded Best Trading Platform Features in the Investment Trends 2013 UK Leveraged Trading Report based on highest user satisfaction amongst spread betters, FX and CFD traders.

# 8 Company History







# Strategic Report – Business Review

## Our Business

CMC Markets is an online retail financial services business which enables our clients to trade contracts for difference (CFD) or financial spread betting on a range of shares, indices, foreign currencies, commodities and treasuries. The Group also provides stockbroking services in Australia.

CMC Markets creates prices on over 5,000 instruments in which clients can trade. Revenues are generated predominantly through transactional spreads, financing income and commissions which arise from our clients' trading activities. Our risk management strategy is based on highly automated flow management, dynamically hedging net client exposures and risk. The level of revenues is influenced by the number of clients actively trading, the amount each client trades and the subsequent revenue earned from each trade.

## Our products

### CFD

A CFD provides economic benefits similar to an investment in an underlying asset without the costs and limitations associated with physical ownership. A CFD is a cash-settled investment in products which are based on currencies, commodities, treasuries, indices and shares. A CFD tracks the price movement of the chosen product, including dividends on stocks, interest on positive carry currency positions, and coupon on interest bearing instruments.

A CFD is a leveraged product which has the potential to magnify profits as well as losses.

### Spread bet

Spread betting allows clients to trade on the price movements of financial markets, including currencies, commodities, treasuries, indices and shares. Spread betting with CMC Markets provides similar economic benefits to those experienced when investing in an underlying asset, but without the costs and limitations associated with physical ownership. Spread bets are cash-settled investments in financial products that offer a number of benefits,

including dividends on stocks, interest on positive carry currency positions, and coupon on interest bearing instruments.

Spread betting has many of the same benefits as a CFD with one important difference; you are betting a specific stake size per point movement of a product rather than trading a specific number of shares or units.

Ordinarily, profits from spread betting are free from capital gains tax and stamp duty in the UK and Ireland, although tax laws are subject to change.

A spread bet is a leveraged product which has the potential to magnify profits as well as losses.

### Stockbroking

CMC Markets also offers Australian clients the ability to buy and sell ASX and APX listed equities as well as listed funds, with clients having access to live market data and research from some of Australia's most respected stock market analysts.



### Our geographical reach

CMC Markets is a global business with a significant presence in its main hubs in the UK, Australia, Germany and Singapore but also operating across 4 continents from 12 offices with clients located in 77 countries around the globe.



# Strategic Report – Business Review

## Our objectives

### Client service

Our ambition is to deliver an unparalleled client experience to the active trader. This will help maintain a loyal trading community, contributing towards optimal returns for our shareholders and increasing long-term value for the business.



As well as offering competitive pricing, products and trading capabilities that we know our clients want, we will continue to strive to ensure that our clients see us as the most trusted and recommended provider in the industry through excellence in client service.

CMC Markets continues to place the utmost importance on client service and the continuous delivery of fair outcomes to our clients through our behaviour, image, product innovation and internal culture. With this client-centric vision at

the core of our business we continue to strive to ensure that CMC Markets will become the brand of choice in all of our key global markets.

### Product innovation

Innovation is at the centre of everything we do. We constantly evolve, challenge and innovate. We aim to provide our clients with global access to investment opportunities anywhere, anytime to create a self-directed investment community that manages markets on its own terms. We continuously seek to provide competitive pricing, unique features, tools and content so that our clients can be alerted to real time trading opportunities and confidently act on them. We constantly review our content, services and products in order to stand out from the competition.



### Technology and operations

Technology and operations have always been key to the success of CMC Markets and this has won us outstanding recognition as a leader in our industry for innovation and service. Our aim is to provide our clients with the ability to take ownership of their personal financial investments. Our platform has been built to provide complete control and flexibility. We are investing in technology and operational processes which will allow us to expand with ease in the future, providing scalability, combined with exceptional dependability and speed, while driving down marginal costs as volumes grow.



## Achieving our objectives

### Trading risk management

Instrumental to the success of CMC Markets is our global trading risk management capability, dealing with high volumes of sophisticated multi-asset retail flow benefiting from a significant proportion of natural aggregation. Our healthy capital and liquidity balances allow us to retain an element of net client portfolio risk, transferring the remaining risk through hedging to our external counterparties. This delivers a highly automated transactional based risk management strategy, allowing the business to deliver consistent and sustainable returns irrespective of underlying client performance and driving long term client engagement.



We aspire to be a global leader in providing pricing, execution and liquidity to retail clients and this is enabled through fully automated execution and dynamic risk management which is scalable far beyond our current levels of trading activity. Clients are required to place margin in advance of entering into any transaction with CMC Markets, and positions are automatically closed if these margins are materially eroded. We have significant expertise in retail flow and risk management across multi-asset classes and will continue to lead and innovate as we expand our products and services into the future.

Risk appetite is controlled via strong governance and real time controls and oversight, within tightly defined risk parameters approved by the Board.

### Financial strength

We maintain a capital and liquidity structure that is appropriate for the future security, growth and success of the business. This includes a long term level of capital to withstand the demands of the financial fluctuations in the markets and access to a healthy level of surplus liquid resources commensurate with the size of our business and the growth opportunities which exist in the future.



### People

CMC Markets is committed to recruiting, developing, retaining and motivating exceptional people who are determined to deliver on our promise to our clients. Our team has the knowledge and experience to make this happen.



## Market overview

We operate in a highly competitive industry where we differentiate ourselves through our client service offering and constant product innovation in order to attract higher value clients to trade any of the major asset classes available through spread betting and CFD trading.

The industry has been subject to a number of regulatory changes during the course of the year. The Italian Financial Transaction Tax (FTT) was introduced in September 2013. Although this has not materially affected trading volumes on a Group basis due to the number of products within scope, there will possibly be a much larger impact on trading volumes and revenue should the European FTT be introduced. The form that it will take is still under discussion and the scope has not yet been finalised, so it is too early to predict the quantum of the impact.

There continue to be a number of new entrants to the market around the world, operating from offshore locations and not necessarily subject to robust regulatory oversight. Client service and protection is paramount to CMC Markets and all of the Group's offices are supervised by local regulators.

The Financial Conduct Authority (FCA) introduced CRD IV on 1st January 2014. This was a large change for many organisations, but given the capital structure of CMC it has not affected our ability to take on new business, with our capital adequacy ratio maintained at over 14% (175% pre CRD IV) throughout the year.

## Strategic Progress

Our product innovation, illustrated through the rollout and continuous enhancement of our Next Generation platform, along with our focus on client service continue to be at the core of our strategy.

### Next Generation platform

The Next Generation platform was released to our remaining European markets during the course of the year and is now available in Australia and New Zealand, Singapore and all of our European regions, with 90% of global client trades in March 2014 made on Next Generation. The launches have coincided with our increased marketing presence in the second half of the year in all regions, with our campaign focused on delivering the complete trading package including superior execution, an advanced trading platform, custom mobile apps, reliability and excellent customer service.

We constantly strive to enrich our clients' trading experience and push the technological boundaries of retail trading. As well as making ongoing enhancements to our existing features, we have developed a variety of new services including our new CMC Markets analyst-centric Insights module, Execution alerts and 1-Click Trading. Improvements to existing features include development of sophisticated risk management order placement tools, updated platform navigation and additional advanced functionality on our award winning charting package.

One of the highlights of the past year was the impressive growth we saw in the use of our mobile trading platform. The greater than 30% gain in users year-on-year<sup>1</sup> is testament to the fact that our mobile technology is seen to be among the best in the industry with recent new features such as our Economic Calendar, multi-chart view and the refresh of our mobile user experience being particularly well received.

All of these developments saw CMC Markets win 33 global awards including Best Online Charts and Best Online Trading Platform from Money AM, Best CFD provider, Best Online Platform and Financial Provider of the Year from the Shares Awards and 9 awards from the Investment Trends 2013 UK Leveraged Trading Report which included Best Platform Features<sup>2</sup>, Best Mobile and Tablet App<sup>3</sup> and Best Research Tools<sup>4</sup> based on highest user satisfaction.



<sup>1</sup> March 2013 = 15,295; March 2014 = 20,074  
<sup>2</sup> According to spread betters, CFD and FX traders  
<sup>3</sup> According to spread betters and FX traders  
<sup>4</sup> According to CFD traders



# Strategic Report – Business Review

## Client service

Our strategy continues to focus on superior client service and providing a market-leading platform for acquiring and retaining premium clients. Many of the enhancements that we have developed have come from feedback gathered face to face during our regular client focus groups or directly via our feedback module within our trading platforms, to ensure that we are giving our clients exactly what they want.

Our focus on client service has been demonstrated through increased recruitment into our Sales Trading Desk during the year to help manage and support our top tier client base and also through winning the award for Highest Overall Client Satisfaction according to CFD traders from Investment Trends.

Our Trader Development programme continues to go from strength to strength. We have expanded our offering to include additional in-platform education such as on-demand videos plus extensive written content to support our clients across all levels of experience.

## Looking forward

We will continue to develop our Next Generation platform and focus on client service in the year ahead across all regions. The Next Generation trading platform is now available via web and mobile devices in all of our active regions and will be available to our clients in Canada later in 2014. We will also build on the release of the Partners Next Generation platform by identifying and acquiring new institutional clients and building functionality that meets their requirements.

## Outlook

Although market conditions have been subdued, FY15 trading has begun broadly in line with expectations. Our continuing platform development and client-focussed initiatives will show a managed increase in operating costs in FY15, whilst still maintaining profit margins. I believe that recently implemented and ongoing initiatives place us on the front foot for growth in the year ahead.

The Group is aligned from the top down and there is a culture of delivering the best possible service to clients. The team are dedicated, focused and excited about the future and quite frankly so am I.



**Peter Cruddas**

Chief Executive Officer

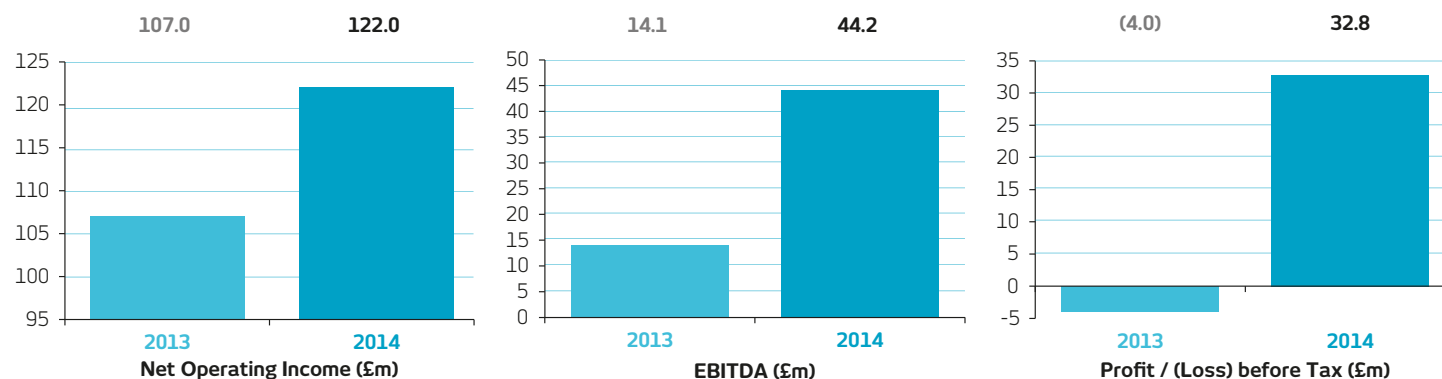


# Strategic Report – Financial Review

## Summary

For the year the Group achieved an EBITDA of £44.2m, a £30.1m (213%) improvement on prior year. This has been achieved through a £15.0m (14%) improvement in Net Operating Income and a £15.1m (16%) reduction in operating costs.

Profit before tax was £32.8m, an improvement of £36.8m, reflecting the increased revenue, lower cost base and lower amortisation charges.



This improvement in performance has enabled the Group to resume paying dividends and during the year £6.0m was paid with a further £6.0m declared and paid after the year end, representing 4.28p per share (2013: £nil).

Own cash has also improved by £31.0m in the year, ensuring that the Group continues to be in a robust liquidity position.

Regulatory capital remains strong, under CRD IV the Group has a capital ratio of 18.6% (2013: 17.2% \*).

\* Adjusted to be an equivalent CRD IV basis

# Strategic Report – Financial Review

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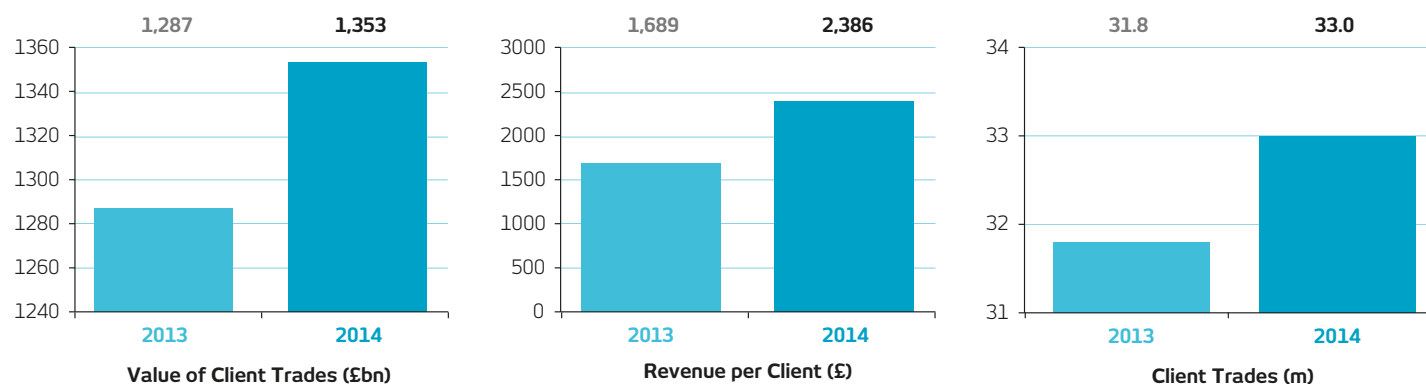
## Key Performance Indicators

The Group monitors both financial and non-financial metrics to assess the performance of the business. These are highlighted in the summary section above and in the following sections of the Financial Review.

### Revenue, net operating income and client KPIs

The Group's revenue represents profits and losses, including commissions and financing income from client activity and the transactions undertaken to hedge that activity.

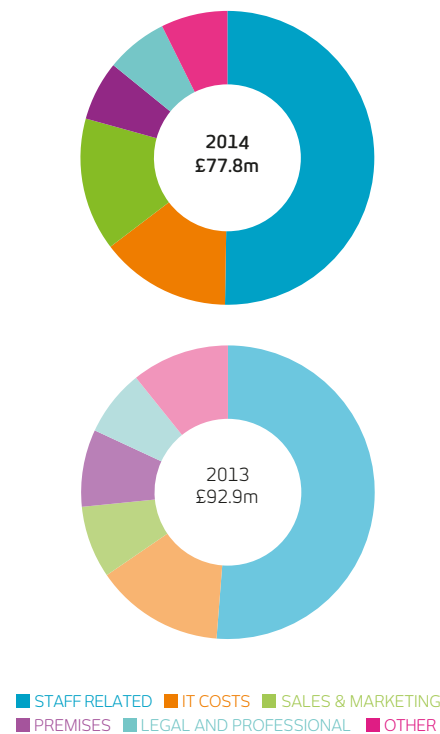
The total value of client trades for the year increased by a modest 5% to £1,353bn and the number of client trades increased by 4% to 33.0m although client numbers fell 14% to 47,913. However, the Group focus on excellent client service and an award winning platform has attracted higher quality clients. This has ensured that revenue increased by £13.6m (11%) against prior year and revenue per client increased by 41% to £2,386 per client.



The Group is committed to attracting and rewarding active clients and successfully launched a rebate scheme during the year, rebates paid to our retail clients increased by £2.7m to £3.4m in comparison to the prior year.

## Operating expenses

The Group's Operating Expenses decreased by £15.1m (16%) as the full effect of the restructuring completed in the last financial year was felt.



Staff costs decreased by £8.4m (18%) in the year, and average permanent full time equivalent staff numbers reduced by 73 (15%) as the restructuring plans were completed. Contract staff costs fell by 58% as the trading platform development work reduced throughout the year.

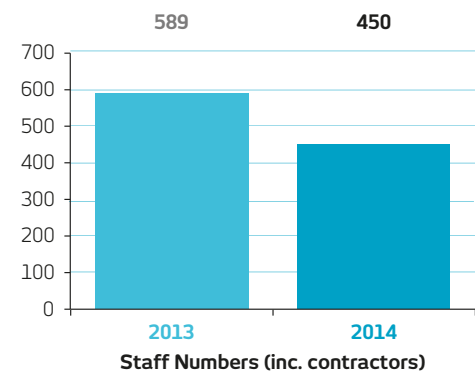
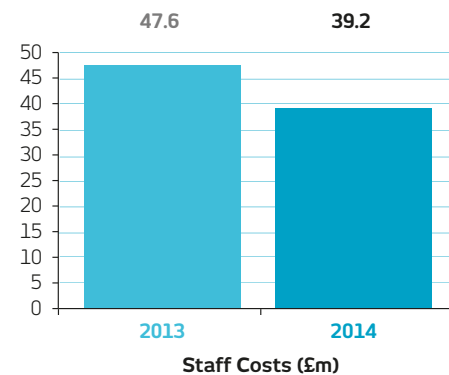
Efficiencies within technology were identified and implemented during the year resulting in a 16% reduction in IT costs.

With the roll out of Next Generation and focus on attracting premium clients, Sales and Marketing spend increased by 55% to £11.4m. The Group

remains committed to increasing awareness of the brand and the Next Generation platform, and it is planned that Sales and Marketing spend will increase again in the coming year.

The rationalisation of the Group's offices around the globe, including exiting vacant space and negotiating savings in existing locations resulted in a 34% reduction in premises costs to £5.1m.

Legal and professional fees reduced mainly as a result of a lower FSCS levy. Other costs were also lower than prior year due to lower bad debt provisions and write-offs.



# Strategic Report – Financial Review

## Taxation

The improved performance of the Group resulted in the Group moving back to a tax paying position having fully utilised tax credits from losses incurred in previous years. The effective tax rate for the year was 26% (2013: tax credit 30%).

## Profit for the year

The retained profit for the year of £24.4m (2013: loss of £2.8m) represents a significant turnaround and illustrates the impact that the Group's focus on client service, an award winning platform, dynamic risk management and a strong cost control environment has had on the business. A dividend of £6.0m was paid in the year and a further dividend of £6.0m has been approved and paid after the year end (2013: £nil).

## Balance sheet

Amortisation of capitalised development costs continued throughout the year, reducing Intangible assets by £6.6m. The Group remains committed to investing in and developing its trading platform and these costs are expensed as incurred.

Trade and other receivables and payables were both lower than prior years due to lower balances due and payable in relation to the Group's stockbroking business.

The higher level and value of client activity increased amounts due from brokers as the Group increased its hedging of client exposures. In addition, surplus cash is deposited at brokers to reduce the Group's financing charges.

Cash and cash equivalents increased £8.7m to £57.8m in the year reflecting the Group's profitability.

Borrowings under the bank facility were £nil at 31 March 2014 (2013: £nil).

Net equity increased by £15.7m to £118.2m due to the statutory profits after adjusting for dividends paid.

## Regulatory capital

For the year under review, CMC Markets was supervised on a consolidated basis by the UK's FCA. The Group maintained a significant capital surplus over the regulatory requirement at all times.

Total capital resources have increased due to the lower level of intangible assets on the balance sheet at the year end. The capital resources requirements have remained relatively stable and in line with our market risk appetite. At 31 March 2014 the capital resources represented 18.62% (pre CRD IV 233%) of the capital resources requirement. The following table summarises the Group's capital adequacy position at the year end.

Regulatory capital	2014 £m	2013 £m
Total capital resources	98.4	92.4
Total risk exposure	528.8	537.5
Total capital ratio (CRD IV)	18.6%	17.2%
Total capital ratio (pre-CRD IV)	233%	215%



## Liquidity

At 31 March 2014, the Group held cash balances of £57.8m (2013: £49.1m). In addition, £206.1m (2013: £225.5m) was held in segregated client money accounts for clients. The movement in Group cash and cash equivalents is set out in the Consolidated Cash Flow Statement.

Liquidity risk management remains an integral part of CMC Markets' long term strategy. A rolling liquidity forecast is maintained that ensures liabilities are met as they fall due whilst delivering the strategic business plan. In addition to this, quarterly stress tests are run to ensure our buffers and contingency funding plan remain robust. We also maintain sufficient available committed facilities to mitigate risk surrounding any extremes and unforeseen rises in broker margin.

Own funds have increased to £116.5m (2013: £85.5m).

The Group has access to the following sources of liquidity:

**Own funds:** This is the primary source of liquidity for the Group. It represents the cash that the business has generated historically excluding all cash held on behalf of clients.

**Committed banking facilities:** The Group has a £25m committed facility in order to finance any potential fluctuations in margins required to be posted at our brokers to support our hedging programme. In June 2014 this facility was increased to £40m in order to support anticipated growth in the Group.

**Non-segregated client cash:** This represents funds received from clients which are held under a Title Transfer Collateral Agreement (TTCA) by which professional or corporate clients agree that full ownership of such monies is unconditionally transferred to the Group. Retail client money is fully segregated in all regions. The Group sees the remaining cash as an ancillary source of liquidity and places no reliance on its stability.

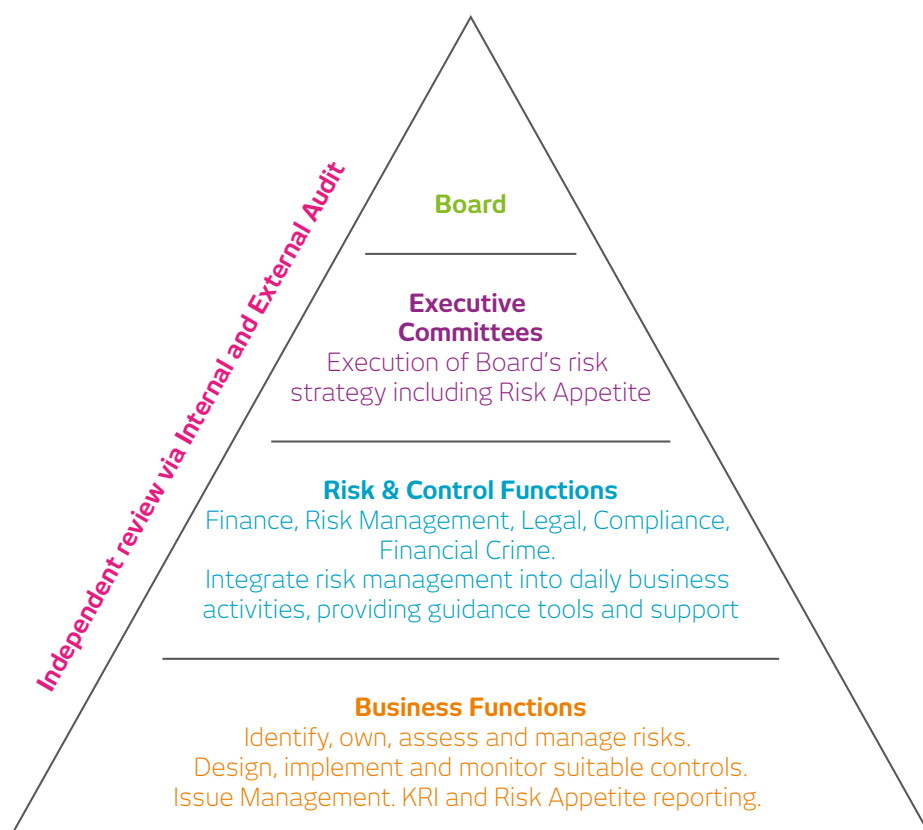
Liquidity	2014 £m	2013 £m
Cash	57.8	49.1
Amounts due from brokers	65.9	48.8
<b>Available cash resources</b>	<b>123.7</b>	<b>97.9</b>
<b>Comprising:</b>		
Own funds	116.5	85.5
Non-segregated client funds	7.2	12.4
Available cash resources	123.7	97.9
Less: Broker Margin requirement	(43.3)	(48.5)
Net available cash	80.4	49.4
Less: Non-segregated client funds	(7.2)	(12.4)
Net own cash available	73.2	37.0
Committed undrawn facilities	25.0	20.0
<b>Liquid assets</b>	<b>98.2</b>	<b>57.0</b>

# Principal risks and uncertainties

The Group's day-to-day business activities naturally expose it to strategic, financial and operational risks. The Board accepts that it cannot place a cap or limit on all of the risks to which the group is exposed, however effective risk management ensures that risks are managed to an acceptable level. The Board, through its Audit and Risk Committee, is ultimately responsible for the implementation of an appropriate risk strategy, defining and communicating the Group's risk appetite, the establishment and maintenance of effective systems

and controls, and continued monitoring of the adherence to Group policies. CMC Markets has adopted a standard risk process, through a five step approach to risk management: Risk Identification; Risk Assessment; Risk Management; Risk Reporting and Risk Monitoring. The approach to managing risk within the business is governed by the Board approved Risk Appetite Statement and Risk Management Framework.

The Board has put in place a governance structure which it believes is appropriate for the operations of an online retail financial services group and is aligned to the delivery of the Groups' strategic aims. The structure is regularly reviewed and monitored and any changes are subject to Board approval. Furthermore, management regularly considers updates to the processes and procedures to embed good corporate governance throughout CMC Markets.



As part of the Group Risk Management Framework, the business is subject to independent assurance by external and internal audit. The use of independent compliance monitoring, risk reviews and risk and control self-assessments provide additional support to the integrated assurance programme and ensures that the Group is effectively identifying, managing and reporting its risks.

The main risks associated with the Group's financial activities and the key operational risks faced by the Group are outlined below and details of financial risks and their management are set out in note 4 to the financial statements.

Further information on the structure and workings of Board and Management committees is included in the Corporate Governance report on pages 26 to 31.

Category	Risk	CMC Markets Impact	Management and Mitigation
Strategic risk	Strategic risk	The risk of an adverse impact resulting from the Group's strategic decision-making as well as failure to exploit strengths or to take opportunities. It is a risk which may cause damage or loss, financial or otherwise to the Group as a whole.	The Board has the responsibility for setting Group strategy and maintaining oversight of strategic risks. It has established a governance framework as set out in the Corporate Governance report on pages 26 to 31 including the appointment of two independent Non-Executive Directors, to ensure adherence to the strategy.
Financial risks	Market risk	The risk that the value of the Group's net trading position may change over any given period due to adverse moves in market prices, interest rates or currency valuations and negatively impact trading revenue.	<p>CMC Markets monitors and manages its exposures on a real time basis. Client positions are hedged based on a number of internally agreed metrics to manage its net exposure against Board approved limits, as defined in the Group's risk appetite.</p> <p>These positions are monitored on a global basis; all open positions held by CMC Markets' clients are combined to calculate CMC Markets' total net client exposure to ensure optimal hedging decisions are made.</p> <p>The diversity of the product range and global distribution of the client base, combined with conservative risk management strategies, and the fact that we do not take proprietary positions based on market expectations significantly reduces CMC Markets' revenue sensitivity to individual asset classes and instruments.</p> <p>Stress scenarios are applied to the portfolio, comprising a number of single and combined, company specific and market-wide events in order to assess potential financial and capital adequacy impact to ensure CMC can withstand severe moves in the risk drivers it is exposed to.</p>
	Credit risk	<p><b>Client Credit Risk:</b></p> <p>Financial losses may be incurred that exceed the margin a client holds to maintain their position, followed by the client defaulting against their contractual obligations to pay the deficit.</p> <p><b>Counterparty Credit Risk:</b></p> <p>A Financial Institution failing to meet or defaulting on their obligations in accordance with agreed terms.</p>	<p><b>Client Credit Risk:</b></p> <p>CMC Markets' management of client credit risk is significantly aided by automatic liquidation functionality on CMC Markets' trading platforms. Account margin levels are continuously reviewed and if they fall below pre agreed levels the positions held on the account will automatically be closed out.</p> <p><b>Counterparty Credit Risk:</b></p> <p>It is CMC Markets' policy that institutional counterparties must have pre-defined minimum short-term and long-term ratings. Furthermore we seek to limit our concentration risk to individual counterparties through diversification of our counterparties for both our banking and broker relationships.</p> <p>Our regulatory and best practice requirements surrounding client monies require us to perform periodic on-going review of all institutions where we deposit client monies.</p>
	Liquidity risk	The risk that there is insufficient available liquidity to meet the liabilities of the Group as they fall due.	<p>The Group's policy is to utilise a combination of liquidity forecasting and stress testing to ensure that the Group retains access to sufficient liquidity in both normal and stressed conditions to meet its liabilities as they fall due. Liquidity forecasting fully incorporates both the impact of liquidity regulations in force in each jurisdiction and other impediments to the free movement of liquidity around the Group.</p> <p>The Group has access to a credit facility to meet short term liquidity obligations to broker counterparties in the event that it does not have sufficient access to its own cash. During the year we performed an Individual Liquidity Adequacy Assessment (ILAA), providing an assessment of how liquidity is managed throughout the business and designating liquidity buffers in excess of our normal operating requirements.</p> <p>Further to this the Group does not have any material maturity miss matches as the majority of funds are held on demand.</p>

# Principal risks and uncertainties

Category	Risk	CMC Markets Impact	Management and Mitigation
Operational risks	Business continuity risk	Business continuity risks include the unavailability of employees, premises or services due to a variety of possible events, some of which are outside the Group's control.	Business continuity risk is managed through a continuing programme of review and enhancement including, testing and walkthroughs of business recovery and IT systems recovery plans; training and awareness; regular business impact analysis and key risk assessment process; review of lessons learned following significant events; and placement of insurance cover for both the business and employees.
	Financial crime risk	As a provider of financial services to retail markets, CMC Markets is exposed to the threat of abuse of its services in the form of financial crime including but not limited to fraud, bribery, market abuse and money laundering.	CMC Markets adopts a risk based approach to financial crime, undertaking formal and regular risk assessments across its global operations. Governed by the Financial Crime Policy and Framework, the Group maintains global reporting procedures and surveillance processes, making use of local compliance and legal expertise.  CMC Markets Group is committed to the highest possible standards of openness, integrity and accountability and encourages individuals working at all levels of the organisation to raise concerns immediately. The Group Whistleblowing policy provides a clear framework for escalation of issues.
	Information risk	Information risk is the threat to the confidentiality, integrity and availability of information held by the Group; including sensitive business information and personal information provided by clients and employees.	The Group's Information Security Framework and Data protection Manual provides policies, standards and acceptable usage guidelines to manage information risk across the Group. Technical and procedural controls are implemented to minimise the occurrence of information security and data protection breaches. Access to information is provided on a "need to know" basis consistent with the user's role and requires appropriate authorisation. Key data loss prevention initiatives and regular system access reviews have been implemented across the business.
	Technology risk	Technology is a critical part of the Group's business. The operation, maintenance and upgrade of systems to facilitate the constantly changing requirements of its clients are an essential process.  System failures would expose the Group to significant commercial, financial, regulatory or reputational risk. Additionally, the impact on competitive advantage through inadequate systems development and implementation is a continuing operational risk.	The Group continues to invest in increased functionality, capacity and responsiveness of its systems infrastructure. It employs rigorous software design methodologies, project management and testing regimes to minimise implementation and operational risks. CMC Markets constantly monitor systems performance and in the event of any operational issues, changes to processes are implemented to mitigate future concerns.  CMC Markets operates two data centres in the UK. Systems and data centres are designed for high availability and data integrity, ensuring continued service to clients in the event of individual equipment failures or major disaster recovery events.
	People risk	People risk includes the risk of loss of key individuals and skills, inadequate development, succession or resource planning, the impact of business restructuring on employees and the risk that people do not follow the organisation's policies, procedures and practices.	Group Human Resources leads the identification and management of people risks, ensuring that a talented and motivated workforce is maintained. Initiatives include retention programmes and succession planning, as well as practical training and skills transfer programmes. Whilst CMC Markets realises that staff turnover will always occur within such a competitive market, education and training, performance management and associated remuneration policies aim to mitigate this risk for key and high performing individuals.

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Category	Risk	CMC Markets Impact	Management and Mitigation
Operational risks	Regulatory and compliance risk	The Group must satisfy regulatory requirements in many jurisdictions and maintains a programme of active monitoring to ensure that those requirements are met consistently. This is an integral part of the Group's overall risk management approach.	<p>The Compliance function across the Group operates a risk based approach to manage compliance risk across all regions. This includes the on-going identification, monitoring and adoption of relevant principles and standards that are consistent with CMC Markets' values and industry defined guidelines. The compliance function is supported in its role by in-house legal resources and dedicated compliance resources located in key regional offices.</p> <p>The global regulatory environment is monitored closely. CMC Markets recognises the risk of changes in regulation affecting the products it offers and proactively works closely with regulators in all regions, driving change where necessary. CMC Markets has been integral in the formation of a number of CFD forums globally, with the objective of raising the bar on standards and best practice.</p>
	Other operational risks	Other operational risks include the Group's exposure to legal and litigation risks, the failure of key third parties, manual errors and any other action or occurrence over which it has little or no control but which may have financial impact or affect its reputation with clients and the business community.	The Group defends its business reputation through legal process when necessary and monitors key third party and supplier relationships. The Group has implemented a number of initiatives including the Business Change Control Framework, incident management processes, risk monitoring and control policies to ensure adherence to the Group's Risk Appetite as defined in the Risk Appetite Statement. All key processes operate under a framework of control that incorporates proper segregation of duties, review and sign off.



Grant Foley  
Group Director of Finance & Risk



# Directors' report

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CMC Markets plc is incorporated as a public limited company and is registered in England and Wales with the registered number 05145017. CMC Markets plc's registered address is 133 Houndsditch, London, EC3A 7BX.

The Directors present their report together with the audited financial statements of CMC Markets plc and its subsidiary companies ("the Group") for the year ended 31 March 2014.

## Principal activities

CMC Markets is an online retail financial services business and, through its principal subsidiaries and their branches as set out in the Corporate Governance Report and note 15 to the financial statements, provides its clients the ability to trade contracts for difference (CFD) or financial spread betting on a range of shares, indices, foreign currencies, commodities and treasuries. The Group also provides stockbroking services in Australia.

## Strategic report

The Companies Act 2006 requires the Group to prepare a Strategic report, which commences on page 10 up to page 23. The Strategic report includes information about the Group's operations and business model, review of the business throughout the year, anticipated future developments, key performance indicators and principal risks and uncertainties. The use of financial instruments is included in the report and further covered under note 21 to the consolidated financial statements on page 68. The Group's vision is to be market leader in global online multi-asset trading. Its strategic objective is to provide superior shareholder returns through the consistent and sustainable delivery of growth in revenue and improvement to operating margins through operational excellence including product innovation, technology and service. How this is achieved is also set out in the Strategic Report.

## Summary of results and dividends

The results for the financial year are shown in the Consolidated Income Statement on page 35. The details of dividends are set out in note 31.

## General

### Capital structure

The Company's share capital comprises ordinary shares of 25 pence each and deferred shares of 25 pence each. At 31 March 2014 there were 280,299,177 ordinary and 2,475,771 deferred shares in issue. Each ordinary share carries one vote. Deferred shares have no voting rights.

### During the year:

1. under the CMC Markets Management Equity Plan 2009 ("the MEP"), nil ordinary shares were allocated to any employee by the Employee Benefit Trust (EBT) due to exercise of vested share options. Similarly, nil ordinary shares were acquired by the EBT from any employee who left the employ of the Group. Due to no transactions during the year, 1,069,282 ordinary shares (0.38% of total issued ordinary shares) remain retained by the EBT at the date of this report and are treated as own shares held in trust for the future benefit of employees of CMC Markets UK plc;
2. under the MEP, 562,500 options over ordinary shares were granted without charge to two Directors;
3. 797,332 options previously granted under the MEP lapsed resulting in 1,286,035 remaining outstanding at the year-end; and
4. 98,001 ordinary shares were converted to deferred shares.

At the date of this report an aggregate of 1,286,035 options over ordinary shares in the Company remain outstanding subject to the rules of the MEP.

Since the year end 375,000 options granted under the MEP have lapsed.

At the date of this report an aggregate of 911,035 options over ordinary shares in the Company remain outstanding subject to the rules of the MEP. Further details of the authorised and issued capital are disclosed in note 24.

## Directors and their responsibilities

Details of the Directors who served throughout or for part of the year and up to the date of signing the financial statements and their executive positions are set out below.

**Peter Cruddas** Chief Executive Officer

**David Fineberg** Group Director of Trading (appointed: 01 January 2014)

**Grant Foley** Group Director of Finance and Risk (appointed: 01 August 2013)

**John Jackson** Non-Executive Director

**Simon Waugh** Non-Executive Chairman

Further information on the Board's activities, powers and responsibilities is included in the Corporate Governance report on pages 26 to 31. The Statement of Directors' Responsibilities is covered on page 31.

## Corporate governance

The Company's report on corporate governance which forms part of this Directors' Report is covered on pages 26 to 31.

## Research and development

The Group has continued to invest significantly in the development of the CFD and spread bet Next Generation platform in addition to maintaining existing infrastructure with considerable effort applied by the technical and software development teams. £nil of development expenditure has been capitalised during the year (2013: £0.7m).

### Going concern

Having given due consideration to the nature of the Group's business, the Directors consider that the Company and the Group are going concerns and the financial statements are prepared on that basis. This treatment reflects the reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future and the consideration of the various risks set out on pages 20 to 23 and financial risks described in note 4 to the financial statements.

### Employee information

#### Collaboration

CMC Markets actively encourages its employees to contribute pioneering and innovative ideas. The Group strongly believe that the contribution of a talented and passionate team is vital for continued success.

The Group has a policy of keeping employees informed and engaged in its business strategy, performance, key projects and initiatives via regular meetings and team briefings and the use of our Company intranet.

#### Equal opportunities and diversity

CMC Markets is committed to developing and supporting a diverse workforce. The Group highly values the differences and creativity that a diverse workforce brings and is committed to recruiting, developing and retaining a world class team irrespective of ethnicities, nationalities, sexual orientation, gender identity, beliefs, religions, cultures, and physical abilities. CMC Markets seeks to establish a culture that values meritocracy, openness, fairness and transparency.

CMC Markets affirms that it will not tolerate any form of unlawful and unfair discrimination. In searching for talent the commitment is always to recruit the best from the broadest applicant pool. All candidates have the right to expect that they will be respected and valued for the richness of ideas which they will bring to the Group.

### Health and safety

The health and safety of the Group's employees and visitors is of primary importance. The Group is committed to creating and maintaining a safe and healthy working environment. Health and safety audits and risk assessments are carried out regularly.

### Corporate social responsibility

The Group believes that high standards of corporate social responsibility make good business sense and have the potential to enhance returns. The nature of its business means that the Group's main impact on the environment is energy consumption and travel, both on third party related business and by staff visiting Group's offices other than their base. Energy saving measures are included in the considerations of systems design and in office practices across the Group. Greater use of email and electronic documentation rather than paper based correspondence is encouraged and efforts are made to recycle waste such as paper and IT hardware where appropriate.

Acting responsibly extends to the Group's treatment of customers, suppliers, staff and third parties.

#### Charitable and political donations

Charitable donations of £19,000 (2013: £22,000) were made during the year. Political donations of £nil (2013: £nil) were made during the year.

Going forward, the Group has committed to donating 1% of profit after tax each year to worthy and charitable causes.

### AGM

The 2014 Annual General Meeting of CMC Markets plc (the "2014 AGM") is to be held at 133 Houndsditch, London, EC3A 7BX at 12.00 noon on Wednesday 24 September 2014. The Notice of the 2014 AGM and related papers are sent to shareholders at least 21 clear days before the meeting.

In addition to the ordinary business it is proposed that a resolution will be put to the meeting to approve the conversion of 2,315 ordinary shares to deferred shares in accordance with the terms of grant to employees who have now left the Group and to authorise the purchase of those shares and others previously converted to deferred shares by the Company.

Resolutions are included in the notice of meeting to give Directors the authority for the maximum statutory period of five years to allot the unissued shares of the Company and, subject to the foregoing authority being provided, to permit the Directors to issue such shares wholly for cash on a non pre-emptive basis. These resolutions seek to renew similar authorities given to the Directors by shareholders at the 2013 Annual General Meeting.

### Independent auditors

PricewaterhouseCoopers LLP acted as auditors throughout the year. In accordance with s489 and s492 of the Companies Act 2006, resolutions proposing the re-appointment of PricewaterhouseCoopers LLP as the Company's auditors and authorising the Directors to determine the auditors' remuneration will be put to the 2014 AGM.

By order of the Board



**Jonathan Bradshaw**

Company Secretary  
09 July 2014

CMC Markets plc  
Registered number 05145017

# Corporate governance report

The Directors and senior management of CMC Markets are fully aware of the benefits of robust and effective Corporate Governance. Apart from the evident advantages that clarity and accountability bring to management, the value it adds to commercial activities is acknowledged.

The Board has put in place a governance structure which it believes is appropriate to the operations of an online retail financial services trading group and reflects the size and stage of development of the business. CMC Markets plc is an unlisted public company and is not required to meet the provisions of the Listing Rules of the UK Listing Authority or the Financial Reporting Council's UK Corporate Governance Code. However, the Board is aware of the relevance of these and the Directors support best corporate governance practice and its practical application as considered suitable with regard to the Group's operations. The structure is regularly reviewed and monitored by the Board for effectiveness and adapted as required to fit the needs of the Group's businesses and their management.

The objectives of the governance structure are:

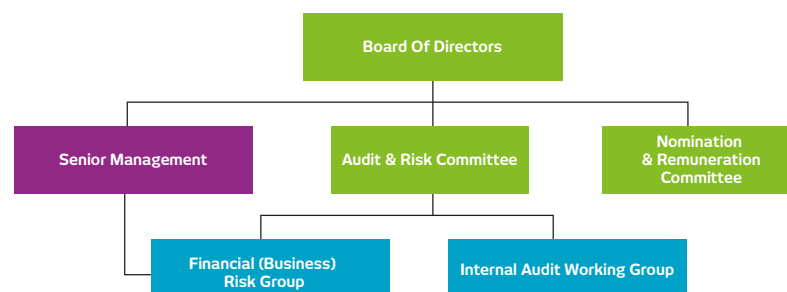
- > to satisfy the needs of the business for proper consideration and decision making;
- > to provide a clear management support and monitoring framework to add value to the business and identify and control risks;
- > to ensure good governance principles are followed including:
- > clear remits and definitions of responsibility, authority, accountability and lines of report;
- > provision of appropriate delegated authority;
- > a framework to facilitate effective checks and balances in management and oversight processes;
- > to allow and encourage effective constructive challenge of the executive; and
- > to apply best practice governance principles appropriate to the business.

The governance structure is regularly reviewed for effectiveness and adapted as required to fit the needs of the Group's businesses and their management.

## Board responsibilities

The Group Board has overall responsibility for the Group's affairs. It comprises three Executive and two independent Non-Executive Directors. The calibre of the Non-Executive Directors is regarded as more than capable of carrying sufficient weight in the Board's decision-making and to challenge the executive. The Directors believe that the Board has a balance of skills, experience and service to provide effective strategic leadership and proper governance of the Company and Group. The current composition of the Board is considered appropriate for the full and proper discharge of its responsibilities. The Articles of Association of the Company do not require the Directors to retire by rotation.

The Board is responsible for the management and oversight of the Group, setting strategic aims and determining policy. Any changes to the roles of the Directors during the year and since the year end are set out in the Directors' Report. The role of the CEO is defined in writing and has been approved by the Board. The effectiveness of the Board is the responsibility of the Non-Executive Chairman. Supported by the Executive Directors and senior management, the CEO is responsible for the implementation and



execution of strategy and policy. The CEO manages the Group's operations on a day-to-day basis and is in frequent contact with the Executive Directors and senior management in addition to attending formal Board meetings. Key performance indicators are included in the performance evaluation process for CEO, Executive Directors and senior management and are used in determining their remuneration.

The statement regarding the use of the going concern basis for preparation of the financial statements is included in the Directors' Report on page 25. The Statement of Directors' Responsibilities including the disclosure of information to the auditors can be found on pages 31.

The Board has a formal schedule of matters specifically reserved to it which includes:

- > setting strategic aims, values and standards to promote the Group's best interests;
- > control and oversight of business management;
- > setting risk parameters and final overall risk management;
- > ensuring adequate financial and human resources;
- > meeting obligations to shareholders and stakeholders;
- > providing guidance and direction to subsidiaries' managements;
- > establishment, maintenance and review of effective systems and controls for:
  - > compliance with applicable requirements of regulatory systems
  - > countering the risk of use of the Group to further financial crime

- > identifying, measuring, managing and controlling risks
- > ensuring business continuity
- > ensuring adequate records are maintained;
- > delegation of authority where appropriate, receiving reports and recommendations from Board Committees and monitoring the discharge of delegated authorities; and
- > the review of policies, procedures, frameworks, standards and controls required for business operations.

All the Directors regularly receive full and timely information required to enable them to perform their role. The Board held seven scheduled meetings during the year and also held five ad-hoc meetings when there was business which could not wait until the next scheduled meeting. Board papers, which are distributed to all directors in advance of each meeting, follow a set agenda although further subjects are added for discussion as the need arises. In the months when no Board meeting is scheduled, the Directors receive a Board pack containing updated reports from each function to ensure consistent oversight. In addition to the scheduled Board meetings, Directors' briefings were also held on particular issues requiring their attention. Directors receive appropriate training on appointment and as necessary during their service and also receive regular briefings on proposed developments or changes to the law or regulations that affect the Group. Each Director has access to the advice and services of the Company Secretary. The Directors may take independent professional advice at the Group's expense and Directors and Officers liability insurance is in place as permitted under the 2006 Companies Act.

### Board committees

The Board Audit and Risk and the Nomination and Remuneration Committees carry out duties delegated to them by the Board and set out in written terms of reference.

# Corporate governance report

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## Audit and Risk Committee

The Audit and Risk Committee comprising the two independent Non-Executive Directors (Simon Waugh (Chairman) and John Jackson) meets at least two times a year. It may invite attendance by senior management and attendees include the Group Director of Finance and Risk. An invitation is also extended to the representatives of the external auditors to attend meetings when financial results are under consideration and to discuss issues relating to the audit and financial control of the Group. The external auditors also have direct access, should they so require, to the Audit and Risk Committee. The Audit and Risk Committee's authority extends to seeking information from any employee, all of whom are required to cooperate with any request from the committee.

The duties of the committee are set out in written terms of reference approved by the Board which include:

- > the review of the annual report and financial statements including the going concern assumption;
- > evaluation of the nature and scope of the external audit, the external auditor's plan for the audit of the financial statements, its management letter, fee, independence, quality controls and consideration of its major findings and management's response to those;
- > consideration of the appointment, re-appointment or removal of the external auditor and its terms of engagement and remuneration including reviewing the engagement letter at the start of each audit;

- > review of the internal audit programme and key material outcomes and to ensure that the function is properly resourced, directed and supported and to monitor management's response to internal audit findings and recommendations;
- > the review of policies and procedures relating to financial management and the effectiveness of systems for internal financial control and reporting;
- > the review of policies and processes for identifying, assessing and managing risk;
- > the oversight of financial, operational and reputational risks and monitoring their management and control. These include market, credit, capital adequacy and liquidity risks and operational risks such as information technology, business continuity, financial crime, legal and regulatory issues;
- > review of the effectiveness of systems for internal controls and reporting on financial (business), operational and reputational risk management; and
- > the review and recommendation of statements included in the annual report in relation to the internal control and management of risk.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprising the two independent Non-Executive Directors (John Jackson (Chairman) and Simon Waugh) meets at least two times a year. Attendance may be invited from senior executive management and regular attendees include the Group Director of Finance and Risk and the Group Head of HR. The duties of the committee are set out in written terms of reference approved by the Board which include:

- > the regular review of the structure of the Board; to lead the process for making Board appointments and to ensure plans are in place for orderly succession;
- > participation with the Board in its periodic review of the performance of Directors and to make recommendations arising from such review;
- > consideration and periodic recommendation to the Board of the remuneration policy (including incentives linked to the Company's performance measured, amongst other things, by financial results adjusted for risks) relating to the Executive Directors and other senior managers that it is designated to consider and ensuring that such policy attracts and retains high calibre Directors and senior management; and
- > the review of Group wide annual salary arrangements, performance related pay schemes and incentive plans and to consider and make recommendations in respect of their rationale, structure and aggregate cost.



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Working groups

The corporate governance structure also includes working groups which together provide a framework to support and monitor the management of the Group.

Two working groups report to the Audit and Risk Committee and the Board (through the risk function), ensuring that the oversight and challenge obligations can more directly be discharged. These working groups monitor and supervise the critical areas of financial (business) risks, compliance and financial crime, and internal audit. These are chaired by the functional heads and staffed by senior managers and specialists in each field they cover.

Each of the working groups outlined above has terms of reference approved by the Audit and Risk Committee. Meetings are formally scheduled at least once a month although should a particular matter require immediate consideration they can be convened quickly to determine any necessary action.

In addition, management meetings are held once a month attended by senior managers from each function across the business and chaired by the CEO. The meetings allow for the communication and discussion of any business developments, on-going projects and new issues that have arisen.

Risks

The on-going process of identifying, assessing and treating the significant risks facing the Group is coordinated by the risk function. This process has been in place for the full year under review and to the date of the approval of the Annual Report and financial statements. The principal risks and uncertainties affecting the Group and the responsibilities for the management of the key risks are set out in the Strategic Report on pages 20 to 23.

Regulation

CMC Markets' worldwide regulated entities and the relevant regulatory authorities are set out on page 30. In order to meet regulatory requirements, they are monitored by specialist executives in the finance, risk, legal and compliance functions globally, supported by the governance structure and processes.

Company meetings

The Executive Directors and the Chairmen of the Audit and Risk and Nomination and Remuneration Committees of the Board will be available to answer questions at the 2014 AGM. Information on the 2014 AGM can be found in the Directors' Report on page 25.

# Corporate governance report

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## Regulated Entities

CMC Markets entity	Financial services regulator(s)
<b>CMC Markets UK plc</b>	Financial Conduct Authority (FCA), UK
<b>CMC Markets UK plc – European branches</b>	FCA, UK; and
<b>Italy</b> CMC Markets UK plc Succursale di Milano	Commissione Nazionale per le Società e la Borsa (CONSOB), Italy
<b>France</b> CMC Markets UK plc, France	Autorité des Marchés Financiers (AMF); and Autorité de Contrôle Prudentiel et de Résolution (ACPR)
<b>Germany</b> Niederlassung Frankfurt am Main der CMC Markets UK plc	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany
<b>Norway</b> CMC Markets UK plc Filial Oslo	Finanstilsynet (The Financial Supervisory Authority of Norway)
<b>Spain</b> CMC Markets UK plc, Sucursal en España	Comisión Nacional del Mercado de Valores (CNMV), Spain
<b>Sweden</b> CMC Markets UK plc Filial Stockholm	Finansinspektionen (The Swedish Financial Supervisory Authority)
<b>CMC Markets UK plc – Representative Office:</b> Beijing Representative Office of CMC Markets UK plc	China Banking and Regulatory Commission
<b>CMC Spreadbet plc</b>	FCA, UK
<b>CMC Markets Asia Pacific Pty Ltd</b>	Australian Securities and Investments Commission (ASIC)
<b>CMC Markets Pty Ltd</b>	ASIC
<b>CMC Markets Stockbroking Ltd</b>	ASIC; and Australia Stock Exchange (ASX)
<b>CMC Markets Canada Inc.</b> (Operating as Marches CMC Canada in Quebec)	Investment Industry Regulatory Organization of Canada (IIROC); Autorité des Marchés Financiers (AMF) Ontario Securities Commission; and British Columbia Securities Commission
<b>CMC Markets NZ Ltd</b>	Financial Markets Authority (New Zealand)
<b>CMC Markets Singapore Pte Ltd</b>	Monetary Authority of Singapore (MAS)

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under Company law, the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the profit or loss of the Group for that period. The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the results and cash flows of the Group for that period. In preparing the financial statements, the Directors are required to:

- > select suitable accounting policies and then apply them consistently;
- > make judgments and accounting estimates that are reasonable and prudent;
- > state whether applicable IFRSs 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 Group and the Company will continue in business.

The Directors are responsible for keeping proper and adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company

and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's and the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 24 confirm that, to the best of their knowledge:

- > the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit for the Company and undertakings included in the consolidation taken as a whole; and
- > the Company's Annual Report and financial statements include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces.

## Disclosure of information to auditor

In accordance with s418 of the Companies Act 2006, each Director in office at the date of approval of this report confirms that:

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

The Annual Report on pages 4 to 79 was approved by the Board of Directors and authorised for issue on 09 July 2014 and signed on behalf of the Board by:



**Jonathan Bradshaw**  
Company Secretary

# Independent auditors' report for the members of CMC Markets plc

## Report on the financial statements

### Our opinion

In our opinion:

- > the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- > the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- > the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by CMC Markets plc, comprise:

- > Consolidated and parent company balance sheets as at 31 March 2014;
- > Consolidated income statement and statement of comprehensive income for the year then ended;
- > Consolidated and parent company statement of cash flows for the year then ended;
- > Consolidated and parent company statement of changes in equity for the year then ended; and

- > the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- > whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- > the reasonableness of significant accounting estimates made by the directors; and
- > the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired

by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Other matters on which we are required to report by exception

#### Adequacy of accounting records and information and explanations received

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.



**Hemione Hudson (Senior Statutory Auditor)**

for and on behalf of PricewaterhouseCoopers  
LLP

Chartered Accountants and Statutory  
Auditors

London

**09 July 2014**

Financial Statements  
For the year ended 31 March 2014



# Financial statements

## Consolidated income statement For the year ended 31 March 2014

GROUP		2014	2013
	Note	£m	£m
<b>Revenue</b>		142.0	127.2
Net interest income	6	0.7	1.9
<b>Total revenue</b>	5	<b>142.7</b>	<b>129.1</b>
Rebates and levies		(20.7)	(22.1)
<b>Net operating income</b>	5	<b>122.0</b>	<b>107.0</b>
Operating expenses	7	(77.8)	(92.9)
<b>EBITDA <sup>(a)</sup></b>		<b>44.2</b>	<b>14.1</b>
Depreciation and amortisation		(10.7)	(16.7)
<b>Operating profit / (loss)</b>		<b>33.5</b>	<b>(2.6)</b>
Finance costs	9	(0.7)	(1.4)
<b>Profit / (Loss) before taxation</b>	10	<b>32.8</b>	<b>(4.0)</b>
Taxation	11	(8.4)	1.2
<b>Profit / (Loss) for the year attributable to owners of the Company</b>		<b>24.4</b>	<b>(2.8)</b>
<b>Earnings per share</b>			
<b>Basic (p)</b>	12	<b>8.7p</b>	<b>(1.0)p</b>
<b>Diluted (p)</b>	12	<b>8.6p</b>	<b>(1.0)p</b>

<sup>(a)</sup> EBITDA represents earnings before interest, tax, depreciation and amortisation and impairment of intangible assets, but includes interest income classified as trading revenue.

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income. The profit for the year ended 31 March 2014 dealt within the financial statements of the Company was £0.1m (2013: £0.1m). The Company had no other comprehensive income.

## Consolidated statement of comprehensive income For the year ended 31 March 2014

GROUP	2014	2013
	£m	£m
<b>Profit / (Loss) for the year</b>	<b>24.4</b>	<b>(2.8)</b>
<b>Other comprehensive income:</b>		
Items that may be subsequently reclassified to income statement		
Profit / (Loss) on net investment hedges net of tax	3.9	(1.5)
Profit recycled from equity to the income statement	1.2	-
Currency translation differences	(8.2)	1.3
<b>Other comprehensive losses for the year</b>	<b>(3.1)</b>	<b>(0.2)</b>
<b>Total comprehensive income / (losses) for the year attributable to owners of the Company</b>	<b>21.3</b>	<b>(3.0)</b>

## Consolidated and Parent Company balance sheets As at 31 March 2014

		GROUP		COMPANY	
	Note	2014 £m	2013 £m	2014 £m	2013 £m
ASSETS					
Non-current assets					
Intangible assets	13	4.1	10.7	-	-
Property, plant and equipment	14	13.7	16.1	-	-
Investment in subsidiary undertakings	15	-	-	162.6	163.7
Deferred tax assets	23	7.4	13.9	-	-
Total non-current assets		25.2	40.7	162.6	163.7
Current assets					
Trade and other receivables	16	19.6	22.5	36.8	37.1
Financial assets	17	0.6	0.6	-	-
Current tax recoverable		-	0.4	-	-
Amounts due from brokers		65.9	48.8	-	-
Cash and cash equivalents	18	57.8	49.1	-	-
Total current assets		143.9	121.4	36.8	37.1
Total assets		169.1	162.1	199.4	200.8
LIABILITIES					
Current liabilities					
Trade and other payables	19	43.0	46.9	43.8	39.5
Financial liabilities	20	1.1	2.9	-	-
Current tax payable		1.2	-	-	-
Provisions	22	0.6	3.8	-	-
Total current liabilities		45.9	53.6	43.8	39.5
Non-current liabilities					
Trade and other payables	19	4.4	4.4	-	-
Deferred tax liabilities	23	0.3	0.6	-	-
Financial liabilities	20	0.3	1.0	-	-
Total non-current liabilities		5.0	6.0	-	-
Total liabilities		50.9	59.6	43.8	39.5
EQUITY					
Equity attributable to owners of the Company					
Share capital	24	70.7	70.7	70.7	70.7
Share premium	24	33.3	33.3	33.3	33.3
Own shares held in trust	25	(2.0)	(2.0)	-	-
Other reserves	27	(49.5)	(46.4)	-	-
Retained earnings		65.7	46.9	51.6	57.3
Total equity		118.2	102.5	155.6	161.3
Total equity and liabilities		169.1	162.1	199.4	200.8

The Financial Statements on pages 35 to 77 were approved and authorised for issue by the Board of Directors on 09 July 2014 and signed on its behalf by:

**Peter Cruddas**, Chief Executive Officer

**Grant Foley**, Group Director of Finance & Risk

## Consolidated and Parent Company statement of changes in equity For the year ended 31 March 2014

### GROUP

	Share capital £m	Share premium £m	Own shares held in trust £m	Other reserves £m	Retained earnings £m	Total Equity £m
At 1 April 2012	70.7	33.3	(2.0)	(46.2)	49.7	105.5
Total comprehensive losses for the year	-	-	-	(0.2)	(2.8)	(3.0)
At 31 March 2013	70.7	33.3	(2.0)	(46.4)	46.9	102.5
Total comprehensive income / (losses) for the year	-	-	-	(3.1)	24.4	21.3
Share-based payments	-	-	-	-	0.4	0.4
Dividends	-	-	-	-	(6.0)	(6.0)
<b>At 31 March 2014</b>	<b>70.7</b>	<b>33.3</b>	<b>(2.0)</b>	<b>(49.5)</b>	<b>65.7</b>	<b>118.2</b>

Total equity is attributable to owners of the Company.

### COMPANY

	Share capital £m	Share Premium £m	Retained earnings £m	Total equity £m
At 1 April 2012	70.7	33.3	57.2	161.2
Total comprehensive income for the year	-	-	0.1	0.1
At 31 March 2013	70.7	33.3	57.3	161.3
Total comprehensive income for the year	-	-	0.1	0.1
Share-based payments	-	-	0.2	0.2
Dividends	-	-	(6.0)	(6.0)
<b>At 31 March 2014</b>	<b>70.7</b>	<b>33.3</b>	<b>51.6</b>	<b>155.6</b>

**Consolidated and Parent Company statement of cash flows**  
**For the year ended 31 March 2014**

		GROUP		COMPANY	
	Note	2014 £m	2013 £m	2014 £m	2013 £m
<b>Cash flows from operating activities</b>					
Cash generated from / (used in) operations	29	21.2	1.7	6.0	(0.1)
Net interest income		0.7	1.9	-	-
Tax paid		(1.4)	(1.1)	-	-
<b>Net cash generated from / (used in) operating activities</b>		<b>20.5</b>	<b>2.5</b>	<b>6.0</b>	<b>(0.1)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(1.6)	(3.3)	-	-
Proceeds from disposal of property, plant and equipment		0.1	0.2	-	-
Investment in intangible assets		(0.7)	(0.7)	-	-
Proceeds from disposal of subsidiary		0.1	0.1	0.1	0.1
<b>Net cash (used in) / generated from investment activities</b>		<b>(2.1)</b>	<b>(3.7)</b>	<b>0.1</b>	<b>0.1</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		(1.2)	(1.7)	-	-
Proceeds from borrowings		-	2.1	-	-
Dividends paid		(6.0)	-	(6.0)	-
Finance costs		(0.7)	(1.4)	(0.1)	-
<b>Net cash used in financing activities</b>		<b>(7.9)</b>	<b>(1.0)</b>	<b>(6.1)</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>10.5</b>	<b>(2.2)</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		49.1	52.1	-	-
Effect of foreign exchange rate changes		(1.8)	(0.8)	-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>18</b>	<b>57.8</b>	<b>49.1</b>	<b>-</b>	<b>-</b>

# Notes to the financial statements

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## Notes to the financial statements

### 1. General information

#### Corporate information

CMC Markets plc (the Company) is a company incorporated and domiciled in England and Wales under the Companies Act 2006. The nature of the operations and principal activities of the CMC Markets plc group (the Group) are set out in note 5.

#### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling (GBP) which is the Company's functional and the Group's presentation currency. Foreign operations are included in accordance with the policies set out in note 3.

### 2. Basis of preparation

#### Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information has been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and in accordance with the going concern basis. The financial information is rounded to the nearest hundred thousand (expressed as millions to one decimal place - £m), except where otherwise indicated. The principal accounting policies adopted in the preparation of these financial statements are set out in note 3 below. These policies have been consistently applied to all periods presented, unless otherwise stated.

#### Changes in accounting policy and disclosures

##### New accounting standards

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 April 2013 that would be expected to have a material impact on the Group.

At the date of authorisation of these Financial Statements, the following new Standards and Interpretations relevant to the Group were in issue but not yet effective and have not been applied to these Financial Statements:

- > IFRS 9, 'Financial instruments: classification and measurement', will replace IAS 39, 'Financial instruments: Recognition and measurement.' IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9, but intends to adopt the Standard no later than the accounting period beginning 1 April 2018, subject to endorsement by the EU.
- > IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The Standard provides additional guidance to assist in determining control where this is difficult to assess. The Group is assessing the impact of IFRS 10, and will adopt the Standard for the accounting period beginning 1 April 2014.
- > IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group is assessing the impact of IFRS 12, and will adopt the Standard for the accounting period beginning 1 April 2014.
- > An amendment to IAS 32, 'Financial Instruments: Presentation', clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group is assessing the impact of IAS 32, and will adopt the Standard for the accounting period beginning 1 April 2014.



- > An amendment to IAS 39, 'Financial Instruments: Recognition and measurement', relates to 'Novation of derivatives', it allows hedge accounting to continue when derivatives are novated to effect clearing with a central counterparty as a result of laws or regulations, if specific conditions are met. The Group is assessing the impact of IAS39, and will adopt the Standard for the accounting period beginning 1 April 2014.
- > IFRIC 21, 'Levies', provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Group is assessing the impact of IFRIC 21, and will adopt the Standard for the accounting period beginning 1 April 2014.

### Basis of consolidation

The consolidated financial information incorporates the financial information of the Company and its subsidiaries made up to 31 March each year. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally determined by the ownership of more than 50% of the voting rights of an investee enterprise, so as to obtain benefits from its activities.

CMC Markets plc became the ultimate holding company of the Group under a group reorganisation in 2006. The pooling of interests method of accounting was applied to the Group reorganisation as it fell outside the scope of IFRS 3: Business Combinations. The Directors adopted the pooling of interests as they believed it best reflected the true nature of the Group. All other business combinations have been accounted for by the purchase method of accounting.

Under the purchase method of accounting, the identifiable assets, liabilities and contingent liabilities of a subsidiary are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Acquisition related costs are expensed as incurred.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those adopted by the Group.

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Use of estimates

The preparation of financial statements in conformity with IFRS 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

#### Acquisitions

When acquiring a business, the Directors have to make judgements and best estimates about the fair value allocation of the purchase price and assets and liabilities acquired. Where necessary, the Directors will seek appropriate competent and professional advice before making any such allocations. There were no businesses acquired in the current financial year.

#### Impairment reviews

The Group tests annually whether goodwill and other intangibles have suffered any impairment in accordance with the accounting policy for "impairment of assets" described in note 3. The recoverable amounts of cash-generating units (CGUs) are determined using value-in-use calculations. These calculations are based on management assumptions and require the use of estimates. Details of the impairment of intangibles calculation and assumptions made are provided in note 13.

#### Fair value of derivatives and other financial instruments

Details of derivative financial instruments held by the Group and their valuation is provided in note 4.

#### Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## Notes to the financial statements

### 3. Summary of significant accounting policies

#### Revenue

Revenue comprises the fair value of the consideration received from the provision of online financial services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, client rebates and discounts and after eliminating sales within the Group. Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Group and the revenue can be reliably measured.

The Group generates revenue principally from flow management, commissions and financing income associated with acting as a market maker to its clients to trade contracts for difference (CFD) and financial spread betting.

CFD and spread betting revenue represents profits and losses, including commissions and financing income, from client trading activity and the transactions undertaken to hedge these revenue flows. Gains and losses arising on the valuation of open positions to fair market value are recognised in revenue, as well as the gains and losses realised on positions which have closed. Revenue from the provision of financial information and stockbroking services to third parties is recognised at the later of the rendering of the service or the point at which the revenue can be reliably measured.

Revenue also includes interest receivable on clients' money and broker trading deposits net of interest payable to clients and brokers. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### Rebates and levies

Revenue rebates payable to clients and introducing partners, who are not themselves trading counterparties, and spread betting levies are charged to the income statement when the associated revenue is recognised and are disclosed as a deduction from total revenue in deriving net operating income.

#### Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the CMC Markets Board.

#### Share-based payment

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at date of grant. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

#### Retirement benefit costs

Pension scheme contributions to the Group's defined contribution schemes are charged to the income statement in the period to which they relate.

#### Leases commitments

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. The rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are accounted for in accordance with SIC 15 as lease incentives. These are included within deferred income and amortised to the income statement so as to spread the benefit on a straight-line basis over the lease term.

Where a leasehold property becomes surplus to the Group's foreseeable business requirements, provision is made for the expected future net cost of the property taking account of the duration of the lease and any recovery of cost achievable through subletting.

## Taxation

The tax expense represents the sum of tax currently payable and movements in deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Consolidated Income Statement 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial information and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the Consolidated Income Statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## Foreign currencies

Transactions denominated in currencies, other than the functional currency, are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates applicable to the relevant period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

Such translation differences are recognised as income or expense in the year in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Intangible assets

### Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities of a subsidiary, at the date of acquisition. Goodwill arising on the acquisition of subsidiaries is included within 'intangible assets' at cost less accumulated impairment losses.

Goodwill is tested for impairment annually. Any impairment is recognised immediately in the Consolidated Income Statement and is not subsequently reversed. On disposal of a subsidiary, the attributed amount of goodwill, which has not been subject to impairment, is included in the determination of the profit or loss on disposal.

## Notes to the financial statements

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Goodwill is allocated to cash-generating units for purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination, identified according to business segment.

### Computer software (purchased and developed)

Purchased software is recognised as an intangible asset at cost when acquired. Costs associated with maintaining computer software are recognised as an expense as incurred. Costs directly attributable to internally developed software are recognised as an intangible asset only if all of the following conditions are met:

- > an asset is created that can be identified;
- > it is probable that the asset created will generate future economic benefits;
- > the development costs of the asset can be measured reliably;
- > sufficient resources are available to complete the development; and
- > it is the Group's intention to complete the asset and use or sell it.

Where the above conditions are not met, costs are expensed as incurred. Directly attributable costs that are capitalised include software development employee costs and an appropriate portion of relevant overheads. Costs which have been recognised as an asset are amortised on a straight line basis over their estimated useful lives.

### Trademarks and trading licences

Trademarks and trading licences that are separately acquired are capitalised at cost and those acquired from a business combination are capitalised at the fair value at the date of acquisition. Amortisation is charged to the income statement on a straight line basis over their estimated useful lives.

### Client relationships

The fair value attributable to client relationships acquired through a business combination is included as an intangible asset and amortised over the estimated useful life on a straight line basis. The fair value of client relations is calculated at the date of acquisition on the basis of the expected future cash flows to be generated from that asset. Separate values are not attributed to internally generated client relationships.

Following initial recognition, Computer software, Trademarks and trading licences and Client relationships are carried at cost or initial fair value less accumulated amortisation. A summary of the amortisation policies applied to the Group's intangible assets is as follows:

Item	Amortisation Policy
Computer software (purchased or developed)	3 years or life of licence
Trademarks and trading licences	10 - 20 years
Client relationships	14 years

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

## Property, plant and equipment

Property, plant and equipment (PPE) is stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all PPE at rates calculated to write-off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset on a straight-line basis over its expected useful life as follows:

Item	Depreciation Policy
Furniture, fixtures and equipment	5 years
Computer hardware	5 years

The useful lives and residual values of the assets are assessed annually and may be adjusted depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Income statement.

### Investment in subsidiary undertakings

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

### Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets subject to amortisation or depreciation are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less cost to sell and value-in-use. Net realisable value is the estimated amount at which an asset can be disposed of, less any direct selling costs. Value-in-use is the estimated discounted future cash flows generated from the asset's continued use, including those from its ultimate disposal. For the purpose of assessing value in use, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

To the extent that the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount. For assets other than goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lower of its original carrying amount and the revised estimate of its recoverable amount.

### Financial assets

Regular purchases and sales of financial assets are recognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are recognised initially at cost, being the fair value of the consideration together with any associated issue costs. After initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Group's loans and receivables comprise 'trade and other receivables' (note 16), 'amounts due from brokers' and 'cash and cash equivalents' (note 18) in the balance sheet.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group designates certain derivatives as either hedges of recognised assets and liabilities that are highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

#### Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses deferred in the foreign currency translation reserve are recognised in the income statement on disposal of the foreign operation.

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### Economic hedges

Economic hedges are held for the purpose of mitigating currency risk relating to transactional currency flows arising from earnings in foreign currencies but do not meet the criteria for designation as either cash flow hedges or hedges of net investments in foreign operations. Economic hedges are measured at fair value with any resulting gains or losses recognised in the income statement in the period in which they arise.

### Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. For trade receivables relating to financial information and stockbroking services, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs' in the income statement.

### Amounts due from brokers

All derivatives used for hedging are margin-traded therefore amounts due from brokers represent funds placed with hedging counterparties. Assets or liabilities resulting from profits or losses on open positions are recognised separately as derivative financial instruments.

### Cash and cash equivalents

Cash and cash equivalents comprise current account balances, bank deposits and other short-term highly liquid investments with maturity dates of less than three months.

### Client money

The Group holds money on behalf of clients in accordance with the Client Asset (CASS) rules of the Financial Conduct Authority and other financial markets regulators in the countries in which the Group operates. Client monies are classified as either client money or cash and cash equivalents in accordance with the relevant regulatory agency's requirements. The amounts held on behalf of clients at the balance sheet date are stated in notes 18 and 19.

### Trade payables

Trade payables are not interest-bearing and are stated at fair value on initial recognition and subsequently at amortised cost.

### Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received, net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

### Provisions

Provisions for property and employee benefit trust commitments are recognised when the Group has a present obligation (legal or constructive) as a result of a past event where it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. The increase in the provision due to the unwind of the discount to present value over time is recognised as an interest expense.

### Share capital

Ordinary and deferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.



### Employee benefit trusts

Assets held in employee benefit trusts are recognised as assets of the Group, until these vest unconditionally to identified employees. A full provision is made in respect of assets held by the trust as there is an obligation to distribute these assets to the beneficiaries of the employee benefit trust.

The employee benefit trusts own equity shares in the Company. These investments in the Company's own shares ('treasury shares') are held at cost and are included as a deduction from equity attributable to the Company's equity owners until such time as the shares are cancelled or transferred. Where such shares are subsequently transferred, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity owners.

## 4. Financial risk management

The Group's Internal Capital Adequacy Assessment Process (ICAAP), prepared under the requirements of the UK's Financial Conduct Authority and the Capital Requirements Directive (effective from 1 January 2009), is an on-going assessment of CMC Markets' risks and how CMC Markets manages these risks, subject to the Group's risk appetite.

The Board sets the strategy and policies for managing these risks and delegates the monitoring and management of these risks to various committees including the Board, Audit and Risk Committee, Operations and Risk Group and the Financial (Business) Risk Group.

Financial risks arising from financial instruments are categorised into market, credit and liquidity risks which, together with how CMC Markets categorises and manages these risks, are described below.

Management considers the carrying value of all financial assets and liabilities to be the approximate equivalent of the fair value.

### Market risk

Market risk is analysed as market price risk, interest rate risk and currency risk. It should be noted that CMC Markets does not enter into proprietary trading positions based on expectations of future market movements.

#### Market price risk

This is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices other than due to currency or interest rate risk.

Market price risk arises from CMC Markets' facilitating clients spread betting and trading contracts for difference (CFDs) with CMC Markets' as their counterparty. Client positions are monitored at a Group level and all open positions held by CMC Markets' clients are combined to calculate CMC Markets' total net client exposure. This approach ensures optimal hedging decisions are made. Hedges are made through derivative trades with the Group's network of Prime Brokers, all of which are credit institutions. The use of derivative financial instruments is governed by Group policies approved by the Board, which provide written principles on their use consistent with the Group's risk management strategy.

#### Mitigation of market price risk

CMC Markets benefits from a number of factors which also reduce the volatility of its revenue and protect it from market shocks as follows:

- > Diversification and liquidity of its product range

CMC Markets acts as a market maker in over 5,000 cross asset products – specifically, equities, indices, commodities, treasuries (solely government bonds) and foreign exchange. This high level of diversification tends to result in reduced concentration of any one instrument within the market risk portfolio.

Additionally, CMC Markets predominantly acts as a market maker in highly liquid financial instruments it can easily hedge.

- > Diversification of client base

In the year ending 31 March 2014, CMC Markets traded with over 47,000 clients from 77 countries. This large international client base has a range of diverse trading strategies resulting in CMC Markets enjoying a high degree of natural hedging between clients. This 'portfolio effect' leads to a significant reduction in CMC Markets' net market exposure.

- > Residual risk - flow driven revenue model

The flow-driven revenue strategy describes the management of market price risk resulting from client trading activity through active hedging with the Group's brokers. Any residual risk remaining after the natural market price risk mitigants above is managed as per internally approved limits and guidelines.

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## Market risk limits

Market risk positions are managed in accordance with CMC Markets' Risk Appetite Statement and Group Market Risk Management Framework so the Group has sufficient capital resources to support the calculated Market Risk Capital Requirement as well as staying within the Risk Appetite. The Group manages this crucial component of capital adequacy with 'risk zones' which are internally set limits designed to mitigate the risk of breaching Capital Adequacy requirements. The Market Risk policy requires that the Group's market price risk exposure, calculated under the FCA's 'position risk requirement' (PRR) methodology, should not hit the red zone, which is set at the Group's Individual Capital Guidance (ICG) level including a Capital Planning Buffer that is required by the FCA. To reduce the chances of the Group entering into the red zone, significant and sufficient buffers are in place whilst immediate remedial action must be taken to hedge client exposure and reduce the Group's overall market price risk exposure if the Group is in the amber zone.

Overall client exposures can vary significantly over a short period of time and are highly dependent on underlying market conditions. Under the residual risk flow model the Group's PRR has fallen at the overall level against the prior year end and remains well within the board approved risk appetite.

GROUP	2014			2013		
	Net PRR exposure £m	Gross exposure £m	PRR £m	Net PRR exposure £m	Gross exposure £m	PRR £m
<b>Asset class</b>						
Consolidated equities	112.3	157.3	12.9	48.1	141.0	11.1
Commodities	(4.6)	11.9	2.1	(2.2)	6.7	1.2
Treasuries	21.2	21.4	0.9	32.0	35.3	0.9
Foreign exchange	12.9	12.9	1.0	39.3	39.3	3.1
Interest rate risk	-	-	0.4	-	-	-
	<b>141.8</b>	<b>203.5</b>	<b>17.3</b>	<b>117.2</b>	<b>222.3</b>	<b>16.3</b>

## Market price risk - stress testing

Group Financial Risk conducts market price risk stress testing on a daily basis. The approach to this stress testing is taking volatility stress factors and applying them to net market price risk exposures in order to assess the market price risk impact. Volatility stresses are derived from actual market price histories for 12 months up to 31 March 2014 (31 March 2013 for the previous financial year). In order to make the model more reliable, stress factors are defined for each asset class (consolidated equities, commodities, treasuries and foreign exchange). Furthermore, volatility stress factors for consolidated equities are defined per region and for commodities they are split between oil and other. Gold and silver are measured separately and are given a separate stress factor. Volatility stress factors for foreign exchange are split between major currency pairs and all other currency pairs. Applying regional as well as asset class based stress factors to exposures ensures that the results are a fair representation of the potential market price risk the Group faces. These stress factors and scenarios are updated quarterly by Group Financial Risk. The Group also runs extreme case stress scenarios on a daily basis, where the stress factors are broken down as mentioned above.

The table below shows example results from 31 March 2014 and 2013. The stress factors were applied to each asset class or asset sub-class market price risk exposure (client exposure net of CMC Markets' hedging) at the reporting date.

In 2014, CMC Markets was net long against un-hedged client positions, the positive volatility stress resulted in a positive trading revenue impact, and the negative volatility stress resulted in a negative trading revenue impact. In 2013, the position was net long, resulting in revenue impacts moving in the same direction as the volatility stresses. The pre-tax trading revenue impact was +/- £2.2m (2013: +/- £0.7m). The Group's annual average pre-tax revenue impact was +/- £1.5m (2013: +/- £4.0m).

GROUP			Increase		Decrease	
	Stress factor range %	Net exposure £m	Net exposure £m	Change in revenue £m	Net exposure £m	Change in revenue £m
<b>2014</b>						
<b>Asset class</b>						
Consolidated equities	1.93% - 3.18%	112.3	114.6	2.3	109.9	(2.4)
Commodities	2.85% - 4.40%	(4.6)	(4.8)	(0.2)	(4.3)	0.3
Treasuries	0.43%	21.2	21.3	0.1	21.1	(0.1)
Foreign exchange	1.29% - 1.39%	2.4	2.4	-	2.4	-
		<b>131.3</b>	<b>133.5</b>	<b>2.2</b>	<b>129.1</b>	<b>(2.2)</b>

GROUP			Increase		Decrease	
	Stress factor range %	Net exposure £m	Net exposure £m	Change in revenue £m	Net exposure £m	Change in revenue £m
<b>2013</b>						
<b>Asset class</b>						
Consolidated equities	1.95% - 3.13%	48.1	49.0	0.9	47.2	(0.9)
Commodities	2.84% - 4.10%	(2.2)	(2.3)	(0.1)	(2.1)	0.1
Treasuries	0.46%	32.0	32.1	0.1	31.9	(0.1)
Foreign exchange	1.46% - 1.51%	1.6	1.4	(0.2)	1.8	0.2
		<b>79.5</b>	<b>80.2</b>	<b>0.7</b>	<b>78.8</b>	<b>(0.7)</b>

Certain prior year balances have been re-allocated to reflect current year presentation.

#### Non trading book interest-rate risk

Interest rate risk arises from either less interest being earned or more being paid on interest bearing assets and liabilities due to a change in the relevant floating rate.

Interest rate risk is felt by the Group through a limited number of channels, income on segregated client and own funds and debits on client balances that are over a pre-defined threshold.

The sensitivity analysis performed moves the floating rate by 1% and is summarised in the below table, and reflects the Group's view that in the current economic environment, interest rate volatility is unlikely to have a significant impact on the profits of the Group.

GROUP	2014		2013	
	Absolute increase £m	Absolute decrease £m	Absolute increase £m	Absolute decrease £m
<b>Impact of 1% absolute change</b>				
Profit after tax	2.1	(0.8)	2.0	(1.0)
Equity	2.1	(0.8)	2.0	(1.0)

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### Non trading book foreign exchange risk

Foreign exchange risk is the risk that the Group's results are impacted by movements in foreign exchange rates.

CMC has foreign exchange risk in the form of transaction exposure. Transaction exposure is from holdings of cash and other current assets and liabilities in a currency other than that of the entity balance sheet.

This risk is hedged to policy on a cap and floor based model each month via one month maturity FX forwards, with gains/losses recognised in the income statement. At year ended 31 March 2014 there were no significant unhedged exposures (none greater than £250,000). Given the effectiveness of the hedging program (income statement impact in year ended 31 March 2014: £0.3m loss) no sensitivity analysis has been performed.

### Credit risk

The Group's principal financial assets are deposits and other cash balances held with banks and other financial institutions, trade and other receivables and amounts due from brokers (all of which are credit institutions). The maximum credit risk is considered to be the carrying value of these financial assets at the balance sheet date.

Credit risk is actively managed and controlled at CMC Markets by Group Financial Risk and Liquidity Risk Management. Group Financial Risk is responsible for monitoring and controlling client credit risk which results from client trading activity. Client credit risk is managed in accordance with the Group Client Credit and Liquidity Risk Management Framework. Liquidity Risk Management is responsible for managing and controlling corporate credit risk.

### Financial institution credit risk

Credit risk arises from the banks and other financial institutions with which the Group deposits funds and from trade receivables with brokers arising from underlying hedging activity.

Credit risk is monitored and managed at a Group level with the objective of spreading our exposure across counterparties to mitigate concentration risk.

Credit limits are approved on the basis of an assessment of credit quality utilising credit ratings, credit default swaps and other appropriate measures. This approach enables the Group to maintain a prudent credit risk appetite with the aim of holding funds with institutions with as high a long-term rating as possible whilst balancing our concentration risk.

Management does not expect any losses from non-performance by these counterparties.

The tables below present CMC Markets' exposure to financial institutions based on their long-term credit rating.

GROUP	2014	2013
	£m	£m
<b>Long-term rating</b>		
AA to AA-	22.3	20.6
A+ to A-	80.8	81.6
BBB+ to BBB-	20.6	3.5
	<b>123.7</b>	<b>105.7</b>

No cash balances or deposits with institutions were considered past due but not impaired or impaired (2013: £nil).

### Client and other credit risk

CMC Markets operates a real-time trading platform with client profits and losses being credited and debited automatically to their account.

Client credit risk arises where client funds deposited with CMC Markets (margin and free equity) are insufficient to cover losses incurred upon liquidation. In particular, client credit risk can arise where there are significant, sudden movements in the market i.e. due to high general market volatility or specific volatility relating to an individual underlying financial instrument.

CMC Markets' management of client credit risk is significantly aided by automatic liquidation on its trading platform. In addition, the Group Client Liquidation Policy and Procedure clarifies the Group's approach to liquidation management, and has resulted in significantly improved client liquidation times and ultimately reduced credit risk exposure.

If a client's free equity (total equity less total margin requirement) becomes negative, the client is requested to deposit additional funds and is restricted from increasing their position. If the client's intra-day losses increase such that their total equity then falls below their liquidation level amount, as specified by CMC Markets, a liquidation order is automatically generated.

Credit risk is reported to CMC Markets' senior management on a daily basis, as well as intraday reporting in exceptional circumstances.

Group Financial Risk measures and reports the Potential Credit Risk Exposure (PCRE) for end of day positions through asset liquidity, negative free equity and instrument concentration reporting. As at 31 March 2014, Group PCRE was £0.08m (2013: £0.30m). Average daily PCRE for the year ending 31 March 2014 was £0.11m (2013: £0.22m).

### Credit Risk Stress Testing

CMC Markets stress tests its potential credit risk exposures at least on a monthly basis. The key variables in the model (volatilities and probability of default) are stressed within four different stress scenarios. The results of these stress tests are used to reach the Client Credit Risk element of the Group's Counterparty Credit Risk Requirement (CRCR). The Group stresses the exposures using the same volatility methodology as market price risk. In addition, the probability of default is stressed for the most material client positions. These stress factors and scenarios are reviewed monthly by Group Financial Risk.

### Client debt history

For the financial year to 31 March 2014, new debt arising was £1.3m (2013: £2.0m). This constituted 0.9% of total trading revenue (2013: 1.6%). The Group establishes specific provisions against debts due from clients where the Group determines that it is probable that it will be unable to collect all amounts owed in accordance with contractual terms of the clients agreement. Release of unutilised provisions for the financial year to 31 March 2014 amounted to £0.1m (2013: new debt provided for: £1.1m), the release representing 0.1% of total trading revenue (2013: provision 0.9%). Bad debt written off in the financial year to 31 March 2014 was £1.0m or 0.7% of revenue (2013: £0.2m; 0.2% of revenue).

The table below details the movement on the Group provision for impairment of trade receivables:

GROUP	2014	2013
	£m	£m
Opening provision	3.1	2.2
New debt provided for	(0.1)	1.1
Debt written off	(1.0)	(0.2)
<b>Closing provision</b>	<b>2.0</b>	<b>3.1</b>

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### Debt ageing analysis

Group Credit Control works efficiently to minimise the effects of client debts on the Company's profit and loss. Client debts are managed very early in their life cycle in order to minimise the likelihood of them becoming doubtful debts or of being written off. The following table sets out aging of debts that are past due and the provisions charged against them:

GROUP	2014		2013	
	Debt £m	Provision £m	Debt £m	Provision £m
Less than one month	0.2	0.1	0.1	-
One to three months	-	-	0.1	0.1
Three to 12 months	0.2	0.2	0.6	0.6
Over 12 months	1.7	1.7	2.4	2.4
	<b>2.1</b>	<b>2.0</b>	<b>3.2</b>	<b>3.1</b>

### Liquidity Risk

Liquidity risk is the risk that there is insufficient available liquidity to meet the liabilities of the Group as they fall due.

Liquidity is managed centrally for the Group by the Liquidity Risk Management team. Utilising a combination of liquidity forecasting and stress testing (formally documented in the Individual Liquidity Adequacy Assessment ('ILAA')) to ensure that the Group retains access to sufficient liquidity resources in both normal and stressed conditions. Liquidity forecasting fully incorporates the impact of liquidity regulations in force in each jurisdiction and other impediments to the free movement of liquidity around the Group, including its own policies on minimum liquidity to be retained by trading entities.

Stress testing is undertaken on a quarterly basis upon a range of individual and combined, firm-specific and market-wide, short and long term scenarios that represent plausible but severe stress events to ensure the Group has appropriate sources of liquidity in place to meet such events.

Due to the risk hedging strategy adopted and the changeable scale of the client trading book, the largest and most variable consumer of liquidity is broker counterparty margin requirements. The collateral calls are met in cash from own funds but to ensure liquidity is available for extreme spikes the Group has arranged a committed credit line to meet short term liquidity obligations to broker counterparties in the event that it does not have sufficient access to own cash or funds from clients and to leave a sufficient liquidity buffer to cope with a stress event

The Group does not engage in maturity transformation as part of its underlying business and therefore maturity mismatch of assets and liabilities does not represent a liquidity risk to the Group.



GROUP					2014
	On demand £m	Less than three months £m	Three months to one year £m	After one year £m	Total £m
<b>Maturity analysis</b>					
<b>Financial assets</b>					
Cash	55.5	2.3	-	-	57.8
Derivatives	-	0.6	-	-	0.6
Amounts due from brokers	65.9	-	-	-	65.9
Trade and other receivables	15.9	-	-	-	15.9
	<b>137.3</b>	<b>2.9</b>	<b>-</b>	<b>-</b>	<b>140.2</b>
<b>Financial liabilities</b>					
Trade and other payables	42.6	-	-	-	42.6
Derivatives	-	0.5	-	-	0.5
Finance lease liabilities	-	0.2	0.4	0.3	0.9
	<b>42.6</b>	<b>0.7</b>	<b>0.4</b>	<b>0.3</b>	<b>44.0</b>
<b>Net liquidity gap</b>	<b>94.7</b>	<b>2.2</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>96.2</b>

GROUP					2013
	On demand £m	Less than three months £m	Three months to one year £m	After one year £m	Total £m
<b>Maturity analysis</b>					
<b>Financial assets</b>					
Cash	18.4	30.7	-	-	49.1
Derivatives	-	0.6	-	-	0.6
Amounts due from brokers	48.8	-	-	-	48.8
Trade and other receivables	19.0	-	-	-	19.0
	<b>86.2</b>	<b>31.3</b>	<b>-</b>	<b>-</b>	<b>117.5</b>
<b>Financial liabilities</b>					
Trade and other payables	45.8	-	-	-	45.8
Derivatives	-	1.7	-	-	1.7
Borrowings	-	0.3	0.3	-	0.6
Finance lease liabilities	-	0.1	0.5	1.0	1.6
	<b>45.8</b>	<b>2.1</b>	<b>0.8</b>	<b>1.0</b>	<b>49.7</b>
<b>Net liquidity gap</b>	<b>40.4</b>	<b>29.2</b>	<b>(0.8)</b>	<b>(1.0)</b>	<b>67.8</b>

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## Analysis of financial instruments by category

Financial assets and liabilities as determined by IAS 39, 'Financial Instruments: Recognition and Measurement', are categorised as follows:

GROUP				2014
	Derivatives held for trading £m	Derivatives held for hedging £m	Loans and receivables £m	Total £m
<b>Financial assets</b>				
Cash and cash equivalents	-	-	57.8	57.8
Derivatives	0.4	0.2	-	0.6
Amounts due from brokers	-	-	65.9	65.9
Trade and other receivables	-	-	15.9	15.9
	<b>0.4</b>	<b>0.2</b>	<b>139.6</b>	<b>140.2</b>
	Derivatives held for trading £m	Derivatives held for hedging £m	Financial liabilities at amortised cost £m	Total £m
<b>Financial liabilities</b>				
Trade and other payables	-	-	47.6	47.6
Derivatives	0.4	0.1	-	0.5
Finance lease liabilities	-	-	0.9	0.9
	<b>0.4</b>	<b>0.1</b>	<b>48.5</b>	<b>49.0</b>

GROUP				2013
	Derivatives held for trading £m	Derivatives held for hedging £m	Loans and receivables £m	Total £m
<b>Financial assets</b>				
Cash and cash equivalents	-	-	49.1	49.1
Derivatives	0.4	0.2	-	0.6
Amounts due from brokers	-	-	48.8	48.8
Trade and other receivables	-	-	19.0	19.0
	<b>0.4</b>	<b>0.2</b>	<b>116.9</b>	<b>117.5</b>
	Derivatives held for trading £m	Derivatives held for hedging £m	Financial liabilities at amortised cost £m	Total £m
<b>Financial liabilities</b>				
Trade and other payables	-	-	51.2	51.2
Derivatives	1.6	0.1	-	1.7
Borrowings	-	-	0.6	0.6
Finance lease liabilities	-	-	1.6	1.6
	<b>1.6</b>	<b>0.1</b>	<b>53.4</b>	<b>55.1</b>

### Fair value estimation

The Group's assets and liabilities that are measured at fair value are derivative financial instruments. The table below categorises those financial instruments measured at fair value based on the following fair value measurement hierarchy:

- > Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- > Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- > Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

GROUP	2014				2013			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Derivative financial instruments</b>								
Financial assets	-	0.6	-	0.6	-	0.6	-	0.6
Financial liabilities	-	(0.5)	-	(0.5)	-	(1.7)	-	(1.7)
	-	<b>0.1</b>	-	<b>0.1</b>	-	<b>(1.1)</b>	-	<b>(1.1)</b>

### Capital management

The Group's objectives for managing capital are as follows:

- > to comply with the capital requirements set by the financial market regulators to which the Group is subject;
- > to ensure that all Group entities are able to operate as going concerns and satisfy any minimum externally imposed capital requirements; and
- > to ensure that the Group maintains a strong capital base to support the development of its business.

The capital resources of the Group consists of equity being share capital, share premium, other reserves and retained earnings, which at 31 March 2014 totalled £118.2m (2013: £102.5m).

CMC Markets is supervised on a consolidated basis by the UK's Financial Conduct Authority (FCA).

The Group's Internal Capital Adequacy Assessment Process (ICAAP), prepared under the requirements of the FCA and the Capital Requirements Directive, is an on-going assessment of CMC Markets' risks and risk mitigation strategies, to ensure that adequate capital is maintained against risks that the Group wishes to take to achieve its business objectives.

The outcome of the ICAAP is presented as an Internal Capital Assessment (ICA) document covering CMC Markets. The ICA covers all material risks to determine the capital requirement over a three year horizon and includes stressed scenarios to satisfy regulatory requirements. The ICA is reviewed and approved by the Board on an annual basis.

Further information on the Group's management of regulatory capital is provided in the 'Pillar 3 Disclosure' report, which is available on the CMC Markets plc website ([www.cmcmarketsplc.com](http://www.cmcmarketsplc.com)). The Group's country-by-country reporting disclosure is also available in the same location on the website.

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## 5. Divisional analysis

## Division structure

The Group's principal business is online retail financial services and provides its clients with the ability to trade contracts for difference (CFD) and financial spread betting on a range of underlying shares, indices, foreign currencies, commodities and treasuries. CMC Markets also makes these services available to institutional partners through white label and introducing broker arrangements. The Group also provides stock broking services in Australia. The Group's core business is generally managed on a geographical basis and for management purposes, the Group is organised into four divisions:

- > Europe;
- > Australia and New Zealand;
- > Asia; and
- > Canada.

Revenues and costs are allocated to the divisions that originated the transaction. Costs generated centrally are allocated to divisions on an equitable basis, based on revenue or headcount.

Divisional assets and liabilities consist of operating assets and liabilities.

## Division results analysis

GROUP	2014			2013		
	Total revenue £m	Net operating income £m	EBITDA £m	Total revenue £m	Net operating income £m	EBITDA £m
Europe	99.1	81.7	34.1	86.0	66.2	11.7
Australia and New Zealand	36.1	33.3	12.8	29.6	27.8	2.9
Asia	6.3	5.9	(1.7)	12.2	11.7	0.5
Canada	1.2	1.1	(1.0)	1.3	1.3	(1.0)
	<b>142.7</b>	<b>122.0</b>	<b>44.2</b>	<b>129.1</b>	<b>107.0</b>	<b>14.1</b>

A reconciliation of EBITDA to profit / (loss) before tax is provided as follows:

GROUP	2014	2013
	£m	£m
EBITDA	44.2	14.1
Depreciation and amortisation	(10.7)	(16.7)
Finance costs	(0.7)	(1.4)
<b>Profit/(loss) before tax</b>	<b>32.8</b>	<b>(4.0)</b>

The measurement of net operating income for divisional analysis is consistent with that in the income statement

The Group uses 'EBITDA' to assess the financial performance of each division. EBITDA comprises operating profit for the year before interest expense, taxation, depreciation of property, plant and equipment and amortisation and impairment of intangibles. Interest expense is not allocated to divisions as liquidity and capital resources are managed by the Group's central treasury function.

Interest income, which is included within total revenue, and depreciation and amortisation are allocated to the divisions as follows:

GROUP	2014		2013	
	Interest income £m	Depreciation and amortisation £m	Interest income £m	Depreciation and amortisation £m
Europe	(0.9)	10.0	(0.8)	15.6
Australia and New Zealand	1.4	0.6	2.2	0.7
Asia	0.1	0.1	0.3	0.4
Canada	0.1	-	0.2	-
	<b>0.7</b>	<b>10.7</b>	<b>1.9</b>	<b>16.7</b>

#### Division assets analysis

GROUP	2014	2013
	£m	£m
Europe	120.7	92.7
Australia and New Zealand	34.9	41.9
Asia	4.7	11.6
Canada	1.4	1.6
	<b>161.7</b>	<b>147.8</b>

A reconciliation of Divisional total assets is provided as follows:

GROUP	2014	2013
	£m	£m
Divisional total assets	161.7	147.8
Unallocated assets:		
Deferred tax assets	7.4	13.9
Current tax recoverable	-	0.4
<b>Total assets</b>	<b>169.1</b>	<b>162.1</b>

The measurement of total assets for division analysis is consistent with that in the Group balance sheet. Assets are allocated based on the operations of the Division.

## Notes to the financial statements

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## 6. Net interest income

GROUP	2014	2013
	£m	£m
Bank interest	2.0	3.0
Interest paid to brokers	(1.4)	(1.3)
Interest from clients	0.1	0.2
<b>Total</b>	<b>0.7</b>	<b>1.9</b>

The Group earns interest income from its own corporate funds and from segregated client funds.

## 7. Operating expenses

GROUP	2014	2013
	£m	£m
Net staff costs (note 8)	39.1	47.6
IT costs	11.2	13.2
Sales and marketing	11.4	7.4
Premises	5.1	7.9
Legal and Professional fees	5.3	6.8
Other	5.7	10.0
<b>Total</b>	<b>77.8</b>	<b>92.9</b>

## 8. Employee information

The aggregate employment costs of staff and Directors were:

GROUP	2014	2013
	£m	£m
Wages and salaries	30.9	35.0
Social security costs	4.1	4.4
Other pension costs	1.1	1.3
Total director and employee costs	36.1	40.7
Contract staff costs	3.0	7.2
Total staff costs	39.1	47.9
Capitalised software development costs	-	(0.3)
<b>Net staff costs</b>	<b>39.1</b>	<b>47.6</b>

Compensation of key management personnel is disclosed in note 32.

The monthly average number of Directors and employees of the Group during the year is set out below:

GROUP	2014	2013
	Number	Number
<i>By activity:</i>		
Key management	5	4
Client acquisition and maintenance	197	236
IT development and support	99	111
Global support functions	121	144
Total directors and employees	422	495
Contract staff	28	94
<b>Total staff</b>	<b>450</b>	<b>589</b>

## 9. Finance costs

GROUP	2014	2013
	£m	£m
Interest on bank borrowings	0.7	1.4

## 10. Profit / (Loss) before taxation

GROUP	2014	2013
	£m	£m
<i>Profit / (Loss) before tax is stated after charging:</i>		
Depreciation	3.7	5.4
Amortisation of intangible assets	7.0	11.3
Gain on disposal of subsidiary	(0.1)	(0.1)
Net foreign exchange (gain) / loss	(1.2)	0.7
Operating lease rentals	2.9	4.4
Auditor's remuneration for audit and other services (see below)	0.9	1.0

Fees payable to the Company's auditors, PricewaterhouseCoopers LLP were as follows:

GROUP	2014	2013
	£m	£m
<b>Audit services</b>		
Statutory audit of Parent and consolidation	0.4	0.3
Statutory audit of subsidiaries	0.1	0.1
	0.5	0.4
<b>Other services</b>		
Tax services	0.4	0.5
Other services	-	0.1
	0.4	0.6
<b>Total</b>	<b>0.9</b>	<b>1.0</b>



## Notes to the financial statements

## 11. Taxation

GROUP	2014	2013
	£m	£m
<b>Analysis of charge for the year:</b>		
<b>Current tax</b>		
Current tax on profit / (loss) for the year	4.2	-
Adjustment in respect of previous years	(0.1)	(0.1)
<b>Total current tax</b>	<b>4.1</b>	<b>(0.1)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	3.0	(1.5)
Adjustment in respect of previous years	0.8	0.1
Impact of change in tax rate	0.5	0.3
<b>Total deferred tax</b>	<b>4.3</b>	<b>(1.1)</b>
<b>Tax charge/(credit)</b>	<b>8.4</b>	<b>(1.2)</b>

The tax for the year differs from the standard rate of UK Corporation Tax of 23% (2013: 24%). The differences are explained below:

GROUP	2014	2013
	£m	£m
Profit / (Loss) before taxation	32.8	(4.0)
Profit / (Loss) multiplied by the standard rate of corp. tax in the UK of 23% (2013: 24%)	7.5	(1.0)
Irrecoverable foreign tax	0.1	-
Expenses that are not recognised for tax purposes	0.3	0.4
Recognition of previously unrecognised tax losses	-	(0.8)
Tax losses for which no deferred tax asset has been recognised	0.1	0.1
Income not subject to tax	(0.6)	(0.2)
Exchange rate differences	-	(0.1)
Adjustment in respect of foreign tax rates	0.1	0.1
Movement to reserves	(0.3)	-
Adjustments in respect of previous years	0.7	-
Change in tax rate	0.5	0.3
<b>Tax charge/(credit)</b>	<b>8.4</b>	<b>(1.2)</b>

The tax credited directly to equity during the year is as follows:

GROUP	2014	2013
	£m	£m
Deferred tax on loss on net investment hedges	(0.7)	0.5

## 12. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to the equity owners of the Company by the weighted average number of ordinary shares in issue during the year excluding those held in employee share trusts which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding those held in employee share trusts, is adjusted to assume conversion of all dilutive potential ordinary shares, which consists of share options granted to employees during the year ended 31 March 2014.

GROUP	2014			2013		
	Earnings £m	Shares Millions	Earnings per share Pence	Earnings £m	Shares Millions	Earnings per share Pence
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	24.4	281.7	8.7	(2.8)	281.8	(1.0)
Dilutive effect of share options	-	0.9	(0.1)	-	-	-
<b>Diluted EPS</b>	<b>24.4</b>	<b>282.6</b>	<b>8.6</b>	<b>(2.8)</b>	<b>281.8</b>	<b>(1.0)</b>

For the year to 31 March 2014, 0.9m potentially dilutive ordinary shares in respect of share options in issue were included in the calculation of diluted EPS for that year. For the year to 31 March 2013, 1.0m potentially dilutive ordinary shares have not been included in the calculation of diluted EPS because their inclusion would be anti-dilutive.

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## 13. Intangible assets

## GROUP

	Goodwill £m	Computer software £m	Trademarks and trading licenses £m	Customer relationships £m	Assets under development £m	Total £m
<b>Cost</b>						
At 1 April 2012	11.5	115.1	3.1	4.4	1.7	35.8
Additions	-	0.4	-	-	0.3	0.7
Disposals	-	(0.1)	-	-	-	(0.1)
Reclassification	-	2.0	-	-	(2.0)	-
Foreign currency translation	-	1.4	-	0.2	-	1.6
At 31 March 2013	11.5	118.8	3.1	4.6	-	138.0
Additions	-	0.7	-	-	-	0.7
Disposals	-	(0.3)	-	-	-	(0.3)
Foreign currency translation	-	(4.9)	(0.1)	(0.7)	-	(5.7)
<b>At 31 March 2014</b>	<b>11.5</b>	<b>114.3</b>	<b>3.0</b>	<b>3.9</b>	<b>-</b>	<b>132.7</b>
<b>Accumulated amortisation</b>						
At 1 April 2012	(11.5)	(97.7)	(2.6)	(2.8)	-	(114.6)
Charge for the year	-	(10.9)	-	(0.4)	-	(11.3)
Disposals	-	0.1	-	-	-	0.1
Foreign currency translation	-	(1.4)	-	(0.1)	-	(1.5)
At 31 March 2013	(11.5)	(109.9)	(2.6)	(3.3)	-	(127.3)
Charge for the year	-	(6.6)	-	(0.4)	-	(7.0)
Disposals	-	0.2	-	-	-	0.2
Foreign currency translation	-	4.9	-	0.6	-	5.5
<b>At 31 March 2014</b>	<b>(11.5)</b>	<b>(111.4)</b>	<b>(2.6)</b>	<b>(3.1)</b>	<b>-</b>	<b>(128.6)</b>
<b>Carrying amount</b>						
<b>At 31 March 2014</b>	<b>-</b>	<b>2.9</b>	<b>0.4</b>	<b>0.8</b>	<b>-</b>	<b>4.1</b>
At 31 March 2013	-	8.9	0.5	1.3	-	10.7
At 1 April 2012	-	17.4	0.5	1.6	1.7	21.2

Additions to software development were made predominantly in relation to the Group's next generation trading platform, pricing engine and client service systems. The amount of additions arising from internal development amounted to £nil (2013: £0.3m).

**Impairment****Goodwill**

During the year ended 31 March 2009, impairment tests carried out resulted in the carrying value of goodwill being fully written down to £nil. There have been no subsequent acquisitions therefore no additional goodwill has been recognised.

**Other intangibles**

Other intangibles are tested for impairment if events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. There was no impairment identified in the year to 31 March 2014.

**14. Property, plant and equipment****GROUP**

	Furniture, fixtures and equipment £m	Computer hardware £m	Total £m
<b>Cost</b>			
At 1 April 2012	22.7	18.2	40.9
Additions	0.7	2.6	3.3
Disposals	(2.1)	(0.3)	(2.4)
Foreign currency translation	0.3	0.1	0.4
At 31 March 2013	21.6	20.6	42.2
Additions	0.9	0.7	1.6
Disposals	(0.5)	(0.4)	(0.9)
Foreign currency translation	(0.7)	(0.7)	(1.4)
<b>At 31 March 2014</b>	<b>21.3</b>	<b>20.2</b>	<b>41.5</b>
<b>Accumulated depreciation</b>			
At 1 April 2012	(9.1)	(13.4)	(22.5)
Charge for the year	(2.7)	(2.7)	(5.4)
Disposals	1.9	0.3	2.2
Foreign currency translation	(0.3)	(0.1)	(0.4)
At 31 March 2013	(10.2)	(15.9)	(26.1)
Charge for the year	(1.7)	(2.0)	(3.7)
Disposals	0.4	0.3	0.7
Foreign currency translation	0.6	0.7	1.3
<b>At 31 March 2014</b>	<b>(10.9)</b>	<b>(16.9)</b>	<b>(27.8)</b>
<b>Carrying amount</b>			
<b>At 31 March 2014</b>	<b>10.4</b>	<b>3.3</b>	<b>13.7</b>
At 31 March 2013	11.4	4.7	16.1
At 1 April 2012	13.6	4.8	18.4

At 31 March 2014, the Group had no material capital commitments in respect of property, plant and equipment (2013: £nil). The net book value amount of property, plant and equipment includes £1.5m (2013: £2.0m) in respect of computer hardware held under finance leases.

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## 15. Investment in subsidiary undertakings

COMPANY	2014	2013
	£m	£m
At 1 April	163.7	163.7
Capital reduction relating to share based payments	(1.1)	-
<b>At 31 March</b>	<b>162.6</b>	<b>163.7</b>

The capital reduction relating to share based payments relates to share options granted by the Company to employees of subsidiary undertakings in the Group, reduced by distributions received from those subsidiaries in respect of those share options.

On 24 January 2011, the Company sold its wholly owned subsidiary, Digital Look Limited for an initial cash consideration of £1.4m resulting in a gain of £1.0m for the Company. The net assets of Digital Look Limited on disposal were zero resulting in a gain of £1.4m for the Group. Of the initial consideration, £0.2m was received by 31 March 2011 with the remainder received in June 2012. During the year ended 31 March 2014 a further £0.1m (2013: £0.1m) was recognised in relation to previously unrecognised deferred contingent consideration.

## Principal subsidiary undertakings

At 31 March 2014, the following companies were CMC Markets plc's principal trading subsidiary undertakings and principal intermediate holding companies:

	Country of incorporation	Principal activities	Held
CMC Markets UK Holdings Limited	England	Holding company	Directly
CMC Markets UK plc	England	Online trading	Indirectly
Information Internet Limited	England	IT development	Indirectly
CMC Spreadbet plc	England	Financial spread betting	Indirectly
CMC Markets Overseas Holdings Limited	England	Holding company	Directly
CMC Markets Asia Pacific Pty Limited	Australia	Online trading	Indirectly
CMC Markets Pty Limited	Australia	Trading and education	Indirectly
CMC Markets Group Australia Pty Limited	Australia	Holding company	Indirectly
CMC Markets Stockbroking Limited	Australia	Stockbroking	Indirectly
CMC Markets Canada Inc.	Canada	Client introducing office	Indirectly
CMC International Financial Consulting (Beijing) Co. Limited	China	Trading and education	Indirectly
CMC Markets NZ Limited	New Zealand	Online trading	Indirectly
CMC Markets Singapore Pte Limited	Singapore	Online trading	Indirectly

All shareholdings are of ordinary shares. The issued share capital of all subsidiary undertakings is 100% owned, which also represents the proportion of the voting rights in the subsidiary undertakings.

**16. Trade and other receivables**

	GROUP		COMPANY	
	2014 £m	2013 £m	2014 £m	2013 £m
Trade receivables	2.1	3.3	-	-
Less: provision for impairment of trade receivables	(2.0)	(3.1)	-	-
Trade receivables - net	0.1	0.2	-	-
Amounts due from Group companies	-	-	36.8	37.1
Prepayments and accrued income	3.7	3.5	-	-
Stock broking debtors	14.6	17.2	-	-
Other debtors	1.2	1.6	-	-
<b>Total</b>	<b>19.6</b>	<b>22.5</b>	<b>36.8</b>	<b>37.1</b>

Stock broking debtors represent the amount receivable in respect of equity security transactions executed on behalf of clients with a corresponding balance included within trade and other payables (note 19).

**17. Financial assets**

GROUP	2014	2013
	£m	£m
Derivative financial instruments (note 21)	0.6	0.6

**18. Cash and cash equivalents**

GROUP	2014	2013
	£m	£m
Gross cash and cash equivalents	263.9	274.6
Less: Client monies	(206.1)	(225.5)
<b>Own cash and cash equivalents</b>	<b>57.8</b>	<b>49.1</b>
<i>Analysed as:</i>		
Cash at bank	55.5	18.4
Short-term deposits	2.3	30.7

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments, with typical maturities of three months or less. Cash at bank earns interest at floating rates, based on daily bank deposit rates.

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## 19. Trade and other payables

	GROUP		COMPANY	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Current</b>				
Trade payables	214.9	238.9	-	-
Less: Client monies	(206.1)	(225.5)	-	-
Trade payables - net	8.8	13.4	-	-
Amount owing to Group companies	-	-	43.8	39.2
Tax and social security	-	0.1	-	-
Stock broking creditors	14.5	18.2	-	-
Accruals and deferred income	19.7	15.2	-	0.3
	<b>43.0</b>	<b>46.9</b>	<b>43.8</b>	<b>39.5</b>
<b>Non-current</b>				
Accruals and deferred income	4.4	4.4	-	-
<b>Total</b>	<b>47.4</b>	<b>51.3</b>	<b>43.8</b>	<b>39.5</b>

**20. Financial liabilities**

GROUP	2014	2013
	£m	£m
<b>Current</b>		
Derivative financial instruments (note 21)	0.5	1.7
Finance lease liabilities	0.6	0.6
Chattel mortgage	-	0.6
	1.1	2.9
<b>Non-current</b>		
Finance lease liabilities	0.3	1.0
Chattel mortgage	-	-
	0.3	1.0
<b>Total</b>	<b>1.4</b>	<b>3.9</b>
Finance lease liabilities		
Amounts payable under finance lease:		
Within one year	0.7	0.7
In the second to fifth years inclusive	0.3	1.1
After five years	-	-
	1.0	1.8
Less: future finance charges	(0.1)	(0.2)
<b>Present value of lease obligations</b>	<b>0.9</b>	<b>1.6</b>
The present value of finance lease liabilities is repayable as follows		
Within one year	0.6	0.6
In the second to fifth years inclusive	0.3	1.0
After five years	-	-
<b>Present value of lease obligations</b>	<b>0.9</b>	<b>1.6</b>



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The weighted average interest rates paid were as follows:

GROUP	2014	2013
	%	%
Finance Leases	10.49%	10.49%
Chattel mortgage	-	6.82%

The fair value of financial liabilities is approximate to the book value shown above. The carrying amounts of the bank loan and loan notes are both wholly denominated in sterling.

#### Bank loans

In June 2013, the 364 day revolving credit facility was renewed at a level of £25m for one year to June 2014. This was renewed again in June 2014 at a revised level of £40m with a maturity date of June 2015. This facility can only be used to meet broker margin requirements of the Group. The rate of interest payable on any loans is the aggregate of the applicable margin, LIBOR, and mandatory cost.

#### Chattel mortgage

In October 2010, the Group arranged a fixed rate three year amortising chattel mortgage of £3.4m secured over certain IT assets of CMC Markets UK plc. At 31 March 2013, £0.6m was outstanding on this facility. Interest is payable at a fixed rate of 6.82%. This chattel mortgage was fully repaid during the year.

#### Undrawn borrowing facilities

The Group has an undrawn multi-currency overdraft facility with NatWest Bank plc of £7.5m, which is repayable on demand. The facility is available in Sterling, Canadian Dollars, Euros, Japanese Yen, Swedish Kronor, Swiss Francs, US Dollars, Australian Dollars and Hong Kong Dollars. The interest rate for the Sterling overdraft is NatWest Bank's Base Rate plus 2% per annum and, for all other currencies, the relevant NatWest Bank currency lending rate.

### 21. Derivative financial instruments

GROUP	2014			2013		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
<b>Held for trading</b>						
Index, Commodities and Treasuries futures	0.4	(0.4)	-	0.4	(1.6)	(1.2)
<b>Held for hedging</b>						
Forward foreign exchange contracts – economic hedges	0.1	(0.1)	-	-	(0.1)	(0.1)
Forward foreign exchange contracts – net investment hedges	0.1	-	0.1	0.2	-	0.2
<b>Total</b>	<b>0.6</b>	<b>(0.5)</b>	<b>0.1</b>	<b>0.6</b>	<b>(1.7)</b>	<b>(1.1)</b>

The fair value of derivative contracts is based on the market price of comparable instruments at the balance sheet date. All derivative financial instruments have a maturity date of less than one year.

#### Held for trading

As described in note 4, the Group enters derivative contracts in order to hedge its market price risk exposure arising from clients trading and spread betting.

#### Held for hedging

The Group's forward foreign exchange contracts are designated as either economic or net investment hedges. Economic hedges are held for the purpose of mitigating currency risk relating to transactional currency flows arising from earnings in foreign currencies but do not meet the criteria for designation as cash flow hedges in accordance with the Group's accounting policies (note 3). The Group has designated a number of foreign exchange derivative contracts as hedges of the net investment in the Group's non-UK subsidiaries. At 31 March 2014, £3.8m of fair value gains were recorded in other reserves within equity (2013: £13.6m).

During the year £0.3m of losses (2013: £0.9m) relating to economic hedges were recognised in the income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets at the balance sheet date.

## 22. Provisions

### GROUP

	EBT commitments £m	Property related £m	Total £m
At 1 April 2013	0.2	3.6	3.8
Additional provision	-	0.3	0.3
Utilisation of provision	-	(3.2)	(3.2)
Currency translation	-	(0.3)	(0.3)
<b>At 31 March 2014</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>

The provision relating to employee benefit trusts (EBT) represents the obligation to distribute assets held in employee benefit trusts to beneficiaries.

The property related provision represents discounted obligations under onerous lease contracts less any amounts considered recoverable by management.

## 23. Deferred tax

	GROUP		COMPANY	
	2014 £m	2013 £m	2014 £m	2013 £m
Deferred tax assets to be recovered within 12 months	1.9	8.9	-	-
Deferred tax assets to be recovered after 12 months	5.5	5.0	-	-
	7.4	13.9	-	-
Deferred tax liabilities to be settled within 12 months	(0.2)	-	-	-
Deferred tax liabilities to be settled after 12 months	(0.1)	(0.6)	-	-
	(0.3)	(0.6)	-	-
<b>Net deferred tax asset</b>	<b>7.1</b>	<b>13.3</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements

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Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20% (2013: 23%). The gross movement on deferred tax is as follows:

	GROUP		COMPANY	
	2014 £m	2013 £m	2014 £m	2013 £m
At 1 April	13.3	11.5	-	-
(Charge) / Credit to income for the year	(7.0)	1.1	-	-
Credit to equity for the year	(0.7)	0.5	-	-
Change in tax rate	0.5	-	-	-
Foreign currency translation	1.0	0.2	-	-
<b>At 31 March</b>	<b>7.1</b>	<b>13.3</b>	<b>-</b>	<b>-</b>

The following table details the deferred tax assets and liabilities recognised by the Group and movements thereon during the year:

GROUP				
	Tax losses £m	Accelerated capital allowances £m	Other timing differences £m	Total £m
At 1 April 2012	7.4	2.8	1.3	11.5
Credit to income for the year	0.5	1.4	(0.8)	1.1
Credit to equity for the year	-	-	0.5	0.5
Reclassified from current tax recoverable	0.1	-	0.1	0.2
At 31 March 2013	<b>8.0</b>	<b>4.2</b>	<b>1.1</b>	<b>13.3</b>
(Charge) / Credit to income for the year	(5.6)	(1.7)	0.3	(7.0)
Credit to equity for the year	-	-	(0.7)	(0.7)
Change in tax rate	0.2	0.1	0.1	0.4
Foreign currency translation	0.8	0.1	0.2	1.1
<b>At 31 March 2014</b>	<b>3.4</b>	<b>2.7</b>	<b>1.0</b>	<b>7.1</b>

COMPANY		Tax losses £m
At 1 April 2012		-
At 31 March 2013		-
<b>At 31 March 2014</b>		<b>-</b>

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of the temporary differences can be deducted. The recoverability of the Group's deferred tax asset in respect of carry forward losses is based on an assessment of the future levels of taxable profit expected to arise that can be offset against these losses. The Group's expectations as to the level of future taxable profits take into account the Group's long term financial and strategic plans and anticipated future tax adjusting items. In making this assessment account is taken of business plans including the board approved Group profit forecast.

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 probable. The Group did not recognise deferred tax assets of £20.5m in respect of losses amounting to £69.1m. In respect of these losses, there is no time limit on their utilisation.

The change in the main rate of corporation tax from 23 per cent to 21 per cent was substantively enacted in July 2013 and was effective from 1 April 2014. As part of the Finance Bill 2013, it was announced that the main rate of corporation tax will reduce to 20% from 1 April 2015. This rate became substantively enacted in July 2013. All deferred tax balances are recorded at 20%. The effect of this reduction in the rate of UK Corporation tax was to decrease the group's deferred tax asset as at 31 March 2014 by £0.4m.

#### 24. Share capital and premium

GROUP AND COMPANY	2014	2013	2014	2013
	Number	Number	£m	£m
<b>Authorised</b>				
Ordinary shares of 25p	400,000,000	400,000,000	100.0	100.0
<b>Allotted, issued and fully paid</b>				
Ordinary shares of 25p	280,299,177	280,397,178	70.1	70.1
Deferred shares of 25p	2,475,771	2,377,770	0.6	0.6
<b>Total</b>	<b>282,774,948</b>	<b>282,774,948</b>	<b>70.7</b>	<b>70.7</b>

#### Share class rights

The Company has two classes of shares, Ordinary and Deferred, neither of which carries a right to fixed income. Deferred shares have no voting rights. In the event of a winding-up, ordinary shares shall be repaid at nominal value plus £0.5m each in priority to deferred shares.

GROUP AND COMPANY	Ordinary shares Number	Deferred shares Number	Total Number
At 1 April 2012	280,441,500	2,333,448	282,774,948
Conversion of ordinary shares to deferred shares	(44,322)	44,322	-
At 31 March 2013	280,397,178	2,377,770	282,774,948
Conversion of ordinary shares to deferred shares	(98,001)	98,001	-
<b>At 31 March 2014</b>	<b>280,299,177</b>	<b>2,475,771</b>	<b>282,774,948</b>

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## GROUP AND COMPANY

	Ordinary shares £m	Deferred shares £m	Share Premium £m	Total £m
At 1 April 2012	70.1	0.6	33.3	104.0
At 31 March 2013	70.1	0.6	33.3	104.0
<b>At 31 March 2014</b>	<b>70.1</b>	<b>0.6</b>	<b>33.3</b>	<b>104.0</b>

## Movements in share capital and premium

During the year 98,001 (2013: 44,322) ordinary shares were converted to deferred shares in accordance with the terms of grant to employees who have now left the Group.

## 25. Own shares held in trust

GROUP	2014	2013	2014	2013
	Number	Number	£m	£m
<b>Ordinary shares of 25p</b>				
At 1 April	1,069,282	1,035,949	2.0	2.0
Additions	-	83,333	-	-
Shares transferred to employees	-	(50,000)	-	-
<b>At 31 March</b>	<b>1,069,282</b>	<b>1,069,282</b>	<b>2.0</b>	<b>2.0</b>

The shares are held by the CMC Markets 2007 Employee Benefit Trust for the purpose of encouraging or facilitating the holding of shares in the Company for the benefit of employees and the trustees will apply the whole or part of the trust's funds to facilitate dealing in shares by such beneficiaries.

## 26. Share-based payment

The total charge for the year relating to employee share-based payment plans was £Nil (2013: £Nil). A £Nil (2013: £0.1m) charge relates to equity-settled share-based payments and a £Nil charge (2013: £0.1m credit) relates to cash-settled share-based payments.

The CMC Markets plc Management Equity Plan 2009 ('2009 MEP') was the only share scheme available to the Group's employees during the current year and no shares were gifted to employees during the year

## Share options

Share options granted under the 2009 MEP have been in the form of 'market performance' and 'non-market performance' based awards.

Market performance based options are exercisable at nil cost subject to the Group achieving certain market valuation targets within defined time scales. There are no individually based performance criteria attached to these awards, other than continued employment within the Group.

Non-market performance based options are exercisable at nil cost subject to the Group achieving certain profit targets. There are no individually based performance criteria attached to these awards, other than continued employment within the Group.

The fair value of non-market performance based options granted prior to 2013 were calculated by reference to a share price of £0.80 and an expected dividend yield of 3%, which resulted in a weighted average fair value per award granted of £0.77.

Share options granted during 2013 had no performance conditions attached. They are exercisable at £0.40 per share and have no individually based performance criteria attached. The fair value of awards made during the year has been calculated using a Black Scholes option pricing model. The significant inputs into the model were the share price of £1.46 at the grant date, volatility of 47.6%, and the annual risk-free interest rate of 0.9%, which resulted in a weighted average fair value per award granted of £1.082. Volatility was calculated by reference to a number of comparable quoted companies.

Movements in the number of share options outstanding are as follows:

GROUP	2014	2013
	Number	Number
At 1 April	1,145,867	6,027,075
Granted	562,500	1,255,300
Lapsed	(797,332)	(6,136,508)
<b>At 31 March</b>	<b>911,035</b>	<b>1,145,867</b>

The vesting and expiry dates of outstanding options are shown below. To the extent that any option does not vest on 1 October 2014, it will lapse immediately.

GROUP			2014	2013
Year of grant	Exercise period commencing	Exercise period ending	Number	Number
2010	30 September 2013	22 December 2019	-	631,727
2010	30 September 2014	22 December 2019	285,735	313,840
2012	2 April 2013	30 April 2016	-	62,500
2013	2 April 2014	30 September 2017	62,800	137,800
2014	2 October 2016	30 October 2021	562,500	-
			<b>911,035</b>	<b>1,145,867</b>

#### Matched options

Under the terms of the 2009 MEP, certain employees were able to invest up to a specified amount to purchase ordinary shares in the Company (the 'bought' shares) in order to receive a further 1 ½ free 'matched' options on the 'matching' date, being 1 October 2011. There are no performance conditions attached to the matched options other than continued employment within the Group and ownership of the bought shares. There were no new bought shares in the year (2013: Nil).

The respective matched options for the bought shares are as follows:

GROUP	2014	2013
	Number	Number
At 1 April	375,000	425,000
Exercised	-	(50,000)
<b>At 31 March</b>	<b>375,000</b>	<b>375,000</b>

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## 27. Other reserves

## GROUP

	Translation reserve £m	Net investment hedging reserve £m	Merger reserve £m	Total £m
At 1 April 2012	12.3	(10.7)	(47.8)	(46.2)
Currency translation differences	1.3	-	-	1.3
Loss on net investment hedges	-	(2.0)	-	(2.0)
Tax on loss on net investment hedges	-	0.5	-	0.5
At 31 March 2013	13.6	(12.2)	(47.8)	(46.4)
Currency translation differences	(8.2)	-	-	(8.2)
Profit on net investment hedges	-	5.0	-	5.0
Tax on profit on net investment hedges	-	(1.1)	-	(1.1)
(Losses) / Gains recycled to Income statement	(1.6)	2.8	-	1.2
<b>At 31 March 2014</b>	<b>3.8</b>	<b>(5.5)</b>	<b>(47.8)</b>	<b>(49.5)</b>

## Translation reserve

The translation reserve is comprised of translation differences on foreign currency net investments held by CMC Markets Group.

## Net investment hedging reserve

Overseas net investments are hedged using forward foreign exchange contracts. Gains and losses on instruments used to hedge these overseas net investments are shown in the net investment hedging reserve. These instruments hedge balance sheet translation risk, which is the risk of changes in reserves due to fluctuations in currency exchange rates. All changes in the fair value were treated as being effective under IAS 39 - Financial Instruments: Recognition and Measurement and Eligible Hedged Items.

## Merger reserve

The merger reserve arose following a corporate restructure in 2005 when a new holding company, CMC Markets plc, was created to bring all CMC companies into the same corporate structure. The merger reserve represents the difference between the nominal value of the holding company's share capital and that of the acquired companies.

## 28. Operating lease commitments

GROUP	2014 £m	2013 £m
Minimum lease payments under operating leases recognised in expense for the year	2.9	4.4

Operating lease payments represent rentals payable by the Group for office space. Leases are negotiated for an average term of 3.7 years (2013: 3.1 years) and rentals are fixed for an average of 2.3 years (2013: 1.4 years).

The Group had outstanding commitments under non-cancellable operating leases as follows:

GROUP	2014	2013
	£m	£m
Within one year	4.4	5.8
Within two to five years	10.7	8.8
After five years	11.3	10.8
	<b>26.4</b>	<b>25.4</b>

### 29. Cash generated from / (used in) operations

	GROUP		COMPANY	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Cash flows from operating activities</b>				
Profit / (loss) before taxation	32.8	(4.0)	0.1	0.1
Adjustments for:				
Net interest income	(0.7)	(1.9)	-	-
Finance costs	0.7	1.4	0.1	-
Depreciation	3.7	5.4	-	-
Amortisation of intangible assets	7.0	11.3	-	-
Gain on disposal of investment in subsidiaries	(0.1)	(0.1)	(0.1)	(0.1)
Share-based payment	0.4	-	1.3	-
Changes in working capital:				
Decrease / (increase) in trade and other receivables	2.9	1.0	(0.8)	(1.2)
Increase in amounts due from brokers	(17.1)	(1.2)	-	-
(Decrease) / increase in trade and other payables	(5.2)	(11.0)	5.4	1.1
(Decrease) / increase in provisions	(3.2)	0.8	-	-
<b>Cash generated from / (used in) operations</b>	<b>21.2</b>	<b>1.7</b>	<b>6.0</b>	<b>(0.1)</b>

### 30. Retirement benefit plans

The Group operates defined contribution retirement benefit plans for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Where employees leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions. The pension charge for these plans for the year was £1.1m (2013: £1.3m).

### 31. Dividend per share

Interim dividend in respect of the year ending 31 March 2014 of 1.07p per share, amounting to £3.0m was approved on 05 July 2013 and was paid during July 2013.

A further dividend of 1.07p per share, amounting to £3.0m was approved on 18 December 2013 and was paid during December 2013.

A final dividend of 2.14p per share, amounting to £6.0m was approved on 4 June 2014 and was paid on 6 June 2014.

This dividend reflects the strong performance that the Group has made since the start of the year and the board's confidence that the Group is well positioned to maintain this going forward. After the payment, the Group remains well capitalised with a significant capital surplus.



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## 32. Related party transactions

## Group transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this section of the note. Transactions between the Group and its other related parties are disclosed below:

## Compensation of key management personnel

GROUP	2014	2013
	£m	£m
Key management compensation:		
Short-term employee benefits	1.0	2.6
Post-employment benefits	-	0.1
Termination benefits	-	0.5
Share based payments	-	-
	1.0	3.2
Remuneration of highest paid director:		
Wages, salaries, bonuses and incentive payments	0.5	2.0

Key management comprise the Board of CMC Markets plc only.

## Directors' transactions

During the financial year, £97,933 (2013: £70,000) was paid to Astre Associates Limited in respect of non-executive director fees payable to John Jackson.

## Company transactions

The Company entered into the following transactions with other CMC Markets Group entities during the year:

COMPANY	2014	2013
	£m	£m
Repayment of amounts due	-	(0.3)
Amounts borrowed	4.6	-
Recharge in respect of share options issued to subsidiary's employees	0.2	-

The Company had the following amounts outstanding with subsidiaries at year end:

COMPANY	2014	2013
	£m	£m
Amounts due from subsidiaries	36.8	37.1
Amounts due to subsidiaries	43.8	39.2

Amounts due to Group undertakings are unsecured, interest free and repayable on demand.

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33. Contingent liabilities

Guarantee

The Company is a joint and several guarantor to the bank loan facility described in note 20. Under the terms of the loan agreement, CMC Markets UK plc can draw down on this facility.

Letters of support

The Company has issued a letters of support to several of its subsidiary undertakings confirming its intention to provide such financial support as is necessary to settle creditors as they fall due and to be able to continue operations on a going concern basis.

Litigation

During the year, the Group received a claim served against its subsidiary CMC Markets Asia Pacific Pty Ltd in relation to losses suffered on a CFD trading account over a period in 2007.

The damages sought are approximately AUD7m. On the basis of legal advice received, the Group view the claim as speculative. No provision has therefore been made in the financial statements in relation to this matter.

34. Ultimate controlling party

The Group's ultimate controlling party is Peter Cruddas by virtue of his majority shareholding in CMC Markets plc.

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<b>Simon Waugh</b>	Non-Executive Chairman
<b>John Jackson</b>	Non-Executive Director
<b>Grant Foley</b>	Group Director of Finance and Risk
<b>David Fineberg</b>	Group Director of Trading

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