IG Markets Limited

Annual report and financial statements

31 May 2013

Registered No 4008957

Directors
P G Hetherington
T A Howkins
C F Hill
A Mackay (resigned 31 July 2012)

Company Secretary
B Messer

Independent Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Bankers
Lloyds TSB Bank plc
10 Gresham Street
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Cannon Bridge House
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London EC4R 2YA

Regıstered No 4008957

Directors' Statutory Report

The Dırectors have pleasure ın submıttıng theır report together wıth the audıted fınancıal statements of IG Markets Lımıted (the Company or IG Markets) for the year ended 31 May 2013

Prıncıpal actıvıtıes

The Company trades as prıncıpal and market maker for foreıgn exchange and contracts for dıfference ('CFDs') ın both the UK and Europe The Company hedges unmatched trades ıncludıng those for other Group companıes, as consıdered approprıate, to ensure ıt ıs not unacceptably exposed to materıal losses The Company also provıdes an IT platform, brokerıng and market rısk servıces to other Group companıes

The Company ıs a wholly-owned subsıdıary of Market Data Lımıted and the ultımate parent company ıs IG Group Holdıngs plc (IG Group Holdıngs plc together wıth all ıts subsıdıary undertakıngs, "the Group") The Company ıs regulated by the Fınancıal Conduct Authorıty

Branches outsıde the United Kıngdom

In lıne wıth strategıc objectıves, the Company has branches ın a number of overseas jurısdıctıons, ıncludıng Australıa Germany, France, Italy, Spaın, Holland, Sweden, Norway and Luxembourg The branch ın Portugal closed durıng the year (31 July 2012) and all Portuguese operatıons were transferred to the branch ın Spaın

Results

The Company's profıt for the year, after taxatıon, ıncreased by 11% (2012 6%) to £87 1 mıllıon (2012 £78 4mıllıon)

Dividends

No dıvıdends were paıd durıng the year (2012 nıl)

Revıew of business and future developments

Net tradıng revenue reached £191 6 mıllıon (2012 £187 4 mıllıon), an ıncrease of 2 2% In the fırst half of the year a weak economıc backdrop and lack of market volatılıty reduced tradıng volumes, whıch translated ınto lower revenues However the second half of the year saw a number of macro storıes emerge whıch encouraged hıgher tradıng volumes, resultıng ın the small ıncrease ın revenue for the year overall

Net tradıng revenue from the Company's UK offıce ıncreased by 4 7% to £120 6 mıllıon (2012 £115 2 mıllıon) UK offıce revenue ıncludes the UK and Ireland CFD busınesses as well as revenues earned through the provısıon of an IT platform, brokıng servıces and market rısk management servıces for the Group's overseas subsıdıarıes

The year's profıt growth (11%) can be partly attrıbuted to a busıness model whıch alıgns revenues and costs Admınıstratıve costs decreased by 7% to £84 0 mıllıon (2012 £90 7 mıllıon) Thıs was drıven by a £4 9 mıllıon (91%) reductıon ın dıscretıonary staff bonuses as a result of the subdued revenues ın the fırst half of the year

The European segment comprısed offıces ın Germany, France, Luxembourg, Italy, Spaın, Holland, Sweden and Norway Durıng the fınancıal year the economıc clımate ın Europe contınued to weaken, wıth the correspondıng ımpact on consumer sentıment makıng ıt more dıffıcult to open new accounts and expand ın the short-term However, stronger performance ın the second half of the year resulted ın the European offıces' net tradıng revenue for the year decreasıng by only 2% to £71 0 mıllıon (2012 £72 2 mıllıon) Actıve clıent numbers grew by 6% across the European regıon ın the year

Europe contrıbuted 37% of revenue ın the fınancıal year (2012 39%) and, as European markets mature, ıs lıkely to remaın a sıgnıfıcant contrıbutor to revenue growth over the next few years More recently establıshed offıces ın less mature markets delıvered strong growth, partıcularly Sweden, where revenues grew 65% The second half of the year saw the openıng of new group offıces ın Norway and Ireland, the latter prımarıly servıcıng the spread-bettıng busıness

Admınıstratıve expenses ınclude recharges from a related party (see notes 5, 8 and 28) of £47 8 mıllıon (2012 £46 9 mıllıon), an ıncrease of 2%

Operatıng profıt as a result of the above factors ıncreased by 9% to £114 0 mıllıon (2012 £104 7 mıllıon)

Directors' Statutory Report

Operating profit is used as the primary measure to assess the performance of our business Operating profit for the UK and Europe for 2013 and 2012 is as follows

	2013			2012		
	£000	£000	£000	£000	£000	£000
	UK	Europe	Total	UK	Europe	Total
Net trading revenue	120,562	71,047	191,609	115,192	72,217	187,409
Operating profit	69,878	44,169	114,047	61,492	43,201	104,693

Shareholders' equity increased from £253 million to £340 million as at 31 May 2013

Under normal market conditions, the Directors continue to expect modest growth in revenue for the year as a whole

Capital resources

The Company had significant surplus regulatory capital resources over the regulatory capital resources requirement throughout the year

At the year-end, under FCA rules, the Company's capital resources exceeded the Pillar 1 capital resources requirement by 399% (2012 300%) Total regulatory capital resources as at 31 May 2013 were £336 1 million (2012 £251 1 million) An analysis of the Group's consolidated capital resources and capital resources requirement is provided in the financial statements for IG Group Holdings plc

Directors

The Directors of the Company who held office during the year were as follows

P G Hetherington
T A Howkins
C F Hill
A R MacKay (resigned 31 July 2012)

No Director had any beneficial interest in the share capital of the Company during the year

The ultimate parent company, IG Group Holdings plc, operates long term incentive plans for management, including the Directors of IG Markets Limited, further described in the financial statements of IG Group Holdings plc

Supplier payment policy and practice

It is the Company's policy to agree terms of payment with suppliers when agreeing the terms for each transaction and to abide by those terms Standard terms provide for payment of all invoices within 30 days after the date of the invoice except where different terms have been agreed with the supplier at the outset There are 2 creditor days of suppliers' invoices outstanding at the year-end (2012 2) for the Company

Risk management

The principal activities of the Company outlined above give rise to exposure to financial and operational risks in the ordinary course of business These risks are managed on a Group-wide basis as disclosed in the financial statements of IG Group Holdings plc

Effective management of the Group's and Company's business risks is critical to the successful delivery of its strategy It is imperative that the Group identifies the nature and potential impact of these risks, in order to maintain a risk-controlled environment throughout the business The Risk Governance Framework sets out the framework for the Board and executive committees, Non-Executive Director (NED) review, independent control functions and ongoing business operations that exercise governance over risk

Directors' Statutory Report

Group Risk Appetite Statement and Key Risk Indicators

The Group's Risk Appetite Statement establishes guidelines for risk management throughout the business The Group aims to maintain a conservative risk-reward profile, and the Board has developed the Risk Appetite Statement based on the following four key principles

- The Board will adopt measures to ensure a low level of volatility in revenues and earnings
- The Board will promote orderly business operations to guard against a loss of confidence by shareholders, clients, employees and business partners
- The Board will adopt measures to minimise regulatory risk
- The Board will review the risk profile of strategic projects against the risk profile of the core business

To report the Group's performance against the Risk Appetite Statement, the Board has implemented a set of Key Risk Indicators (KRIs) The Board reviews the KRIs in conjunction with the Risk Appetite Statement twice a year Taken together, the KRIs are a balanced mix of quantitative and qualitative measures that provide an important indication of increasing or decreasing levels of risk

Key Risks

The following section describes the key risks that the Group faces and the steps that the Group take in order to manage these risks

Credit Risk

Credit risk is the risk that a counterparty fails to perform its obligations, resulting in financial loss Our credit risk is managed on a Group-wide basis The principal sources of credit risk to our business are from financial institutions and individual clients

Financial Institution Credit Risk

All financial institutions with whom the Group has a relationship are subject to a credit review Exposure limits are set and approved by the Risk Committee

The Group monitors a number of key metrics on a daily basis in respect of financial institution credit risk, including balances held, change in short- and long-term credit rating and any change in credit default swap (CDS) price

The Group is responsible, under various regulatory regimes, for the stewardship of client monies These responsibilities include the appointment and periodic review of institutions where we deposit client money Our aim is that all financial institutions holding client money and the Group's own cash and assets should have strong short-term and long-term ratings from the credit rating agencies In some operating jurisdictions it can be problematic to find a counterparty satisfying these requirements, and in these cases we set low exposure limits and seek to use the best available counterparty – preferably one that is considered locally systemic and therefore likely to be supportive in event of failure We also maintain multiple brokers for each asset class

All deposits that we place with these institutions are on an overnight or breakable-term basis, which enables us to react immediately to any downgrade of credit rating status or material widening of CDS spreads We do not have any deposits of an unbreakable nature or that require notice

Client Credit Risk

Client credit risk principally arises when a client's total funds deposited are insufficient to cover any trading losses incurred In particular, client credit risk can arise where there are significant and sudden movements in the market, due to high general market volatility or specific volatility relating to an instrument in which the client has an open position

We mitigate client credit risk in a number of ways We only accept clients that pass certain suitability criteria, and our training programme aims to educate clients in all aspects of trading and risk management and encourages them to collateralise their accounts to an appropriate level

We offer a number of risk management tools that enable clients to manage their exposures including guaranteed and non-guaranteed stops, stop and order limits, the ability to hedge positions, the availability of liquid, tradable contracts when underlying markets are closed (e g 24-hour quoted indices) and full trading capability on a wide range of mobile devices

Directors' Statutory Report

In addition, we manage our overall credit risk exposure through real-time monitoring of client positions via our close-out monitor and through the use of tiered margining

Market Risk

Market risk is the risk that the fair value of financial assets and financial liabilities will change due to movements in market prices

We manage market risk on a real-time basis, monitoring all client positions against market risk limits set by the Risk Committee The Group operates within these limits by hedging our market risk exposure as and when required We do not take proprietary positions based on the expectation of market movement Our technology enables us to monitor our market exposure constantly and in real time If exposures exceed our pre-agreed limits, our risk management policy requires that we hedge the positions to bring the exposure back into line with these limits

Liquidity Risk

Liquidity risk is the risk that we will be unable to meet payment obligations as they fall due

We manage liquidity risk by ensuring that we have sufficient liquidity to meet our broker margin requirements and other financial liabilities when due, under both normal and stressed conditions We carried out an ILAA during the year, and while this applies specifically to the Group's FCA regulated entities, it provides the context within which we manage liquidity throughout the business

Due to the very short-term nature of our financial assets and liabilities, we do not have any material mismatches in our liquidity maturity profiles Short-term liquidity 'gaps' can arise, however, in special circumstances, due to our commitment to segregate all individual client funds If there are significant market falls we are required to fund margin payments to brokers prior to releasing funds from segregation During periods of very high client activity, or significant directional movements in global markets, we may be required to fund higher margin requirements with our brokers to hedge increased underlying client positions We fund these requirements from our own available liquidity Post year-end the Group renegotiated its liquidity facilities (see Subsequent Events below)

Operational Risk

Operational risk is the risk of financial loss due to inadequate or failed internal processes and systems It can also arise from human error or external events that we cannot influence

Our approach to managing operational risk is governed by the Risk Appetite Statement and Risk Management Framework We have designed and implemented a system of internal controls to manage, rather than eliminate, operational risk

The reliability of our client trading platforms is key to delivering our strategy, and we invest significantly in IT infrastructure to ensure that these platforms are resilient On a monthly basis, the Risk Committee reviews our Key Risk Indicators, which includes monitoring levels of core system uptime and deal latency

To ensure that we provide our clients with a consistent and uninterrupted level of service, we run a complete disaster recovery solution, which involves a fully-functional secondary site with real-time replication of all systems across the two locations We support these systems with ongoing business continuity planning and regular testing All our IT and data security systems conform to the ISO27001 2005 Information Security Management System standards

Regulatory Risk

The Group regards regulatory risk as one of our most significant risks In short, we define regulatory risk as the risk that

- We breach a regulation that applies to our business, leading to sanctions, fines, reputational damage and in extreme situations, loss of licence ('Breach Risk')
- Our regulators introduce new regulations that make our business less profitable or impossible ('Change Risk')
- Policy and regulation in jurisdictions in which we don't operate remain onerous and closed to our business model, limiting our geographic expansion opportunities ('Expansion Risk')

We invest significant time and resources to manage and control our regulatory risk More specifically

Directors' Statutory Report

Breach Risk

Our compliance, legal and risk teams provide a robust line of defence to ensure that our processes and controls are effective in ensuring we are complying with our regulatory obligations During the year, the Group has undergone a number of external reviews into key areas such as client money, which have provided comfort that we are managing and controlling this risk well Obviously, as our business becomes more complex this risk also grows, however the Group remains committed to increasing its investment in Breach Risk controls as the complexity of the business grows

Change Risk

The regulatory environment continues to evolve and there are currently a number of policy initiatives and proposals in development that may impact or have already impacted our sector, as described below

- Financial Transactions Tax (FTT) during the year the Group has seen many developments in this area, from the introduction of unilateral FTT regimes in France and Italy, to the attempted Enhanced Cooperation efforts of the 11 member states wishing to bring in a harmonised FTT with a wide scope The Group has expended significant efforts throughout the year to both maintain accurate knowledge of the status of these tax initiatives and to understand the many stakeholders' interests and views It is not yet clear where the Enhanced Cooperation FTT will end up, but The Group are cautiously optimistic that it won't be passed as originally proposed, and certainly not within the time frame initially proposed The outcome of an Enhanced Cooperation FTT is very difficult to assess and potentially ranges from extremely negative to mildly positive, depending on the scope of the tax We continue to monitor developments carefully
- European Markets Infrastructure Regulation the main impact of this legislation on our business is increased reporting requirements to trade repositories Potentially, we will also be impacted by International Organisation of Securities Commission work on margin for 'Over-The-Counter' trading but the rules on this have not yet been settled If these proposals do affect the business it may be some years before any impact will take effect
- MiFID II The Group has continued to monitor developments on this regulatory initiative and remain of the view that MiFID II is unlikely to pose a threat to our UK and European businesses The Group continues to monitor the situation carefully If these proposals do affect the business it may be some years before any impact will take effect
- The FCA has indicated it will undertake thematic reviews into conduct, cyber, culture and IT resilience These matters are under review in the business as a result

We seek to mitigate Change Risk by engaging with our regulators and policy makers as much as possible (as part of policy consultations and more generally), by investing in public relations programmes and by ensuring we have access to up to date information on regulatory change

Expansion Risk

Like Change Risk, we seek to mitigate Expansion Risk by engaging with regulators and policy makers in countries where we do not yet operate, but where we would like to Of course, regulatory change can also represent an opportunity for our business and we are in talks with a number of regulators who are considering changing their regulations in order to allow retail derivatives trading These discussions are still at an early stage

In summary, we work closely with our regulators to ensure that we operate to the highest regulatory standards and can adapt quickly to regulatory change We are committed to engaging proactively with regulators and industry bodies, and will continue to support changes which promote protection for clients and greater clarity of the risks they face However, we cannot provide certainty that future regulatory changes will not have an adverse impact on our business

Employees

The Group takes pride in being an open, non-hierarchical organisation with direct and open access amongst all teams and at all levels The Chief Executive Officer leads a quarterly management forum which is recorded and broadcast to our overseas offices

Bonus payments are based on a communal pool driven by both revenue performance against budget and a scorecard of non-financial measures The pool is first apportioned by department, and then the discretionary payment is distributed to individuals, based upon their performance, by department heads

Directors' Statutory Report

The Group's positive working culture was recognised when IG was named one of Britain's Top Employers for the sixth year running in 2013 The Top Employers Certification is awarded only to organisations that meet the highest standard in Human Resources The award, by the Corporate Research Foundation, was based on a strong performance in each of the surveyed categories pay and benefits, training and development, corporate culture, and particularly in career development

Equality and diversity

The Group is an equal opportunities employer and has extensive human resource policies in place to ensure that employees can expect to work in an environment free from discrimination and harassment

It is therefore key to the Group's success that it reinforces the need to treat all employees fairly, with dignity and without any unlawful discrimination IG is committed to creating a work environment free of harassment and bullying, where everyone is treated with dignity and respect

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training to achieve this aim

Health and safety

The Group believe that their employees are one of its most valuable assets and therefore are committed to providing each employee with a safe and healthy working environment Health and Safety is an integral part of its business and by providing key members of staff with the relevant external training and all other staff with the relevant in-house training this ensures compliance with all statutory health and safety requirements Details of all incidents no matter how small are held on the HR database There were no reportable incidents in the year

Operations and environment

As a business which conducts nearly all of its client trades online, the Group does not see itself as a significant emitter of environmentally harmful substances However, the Group understands that our operations have an impact on the environment and take steps to manage this

Energy consumption and Carbon management

The Group have taken steps to minimise the impact of our offices on the environment These include the installation of automated sensor lighting and air conditioning, both of which minimise energy usage when offices are not in use With the encouragement of employees the Group has also improved our recycling facilities, including IT equipment

Subsequent events

Subsequent to the year-end, in accordance with the phased transfer agreed with the FCA for the Group to hold a liquid assets buffer of up to £80 0 million by August 2013, the Group has purchased £32 3 million of additional BIPRU qualifying assets (please refer to note 20 for further details) Following this purchase the Group now holds £82 7 million of BIPRU qualifying assets within the liquid assets buffer

Further, the Group on 19 July 2013 completed the renegotiation of the liquidity facilities with a syndicate of three banks In doing so the Group has increased the size of the overall facility to £200 0 million and established a longer term liquidity funding arrangement Of the total facility £120 0 million is available for a period of one year and £80 0 million is available for three years respectively from the facility signing date

Independent auditors

A resolution to re-appoint the Group's auditors PricewaterhouseCoopers LLP will be put to shareholders at the forthcoming AGM in October 2013

Insurance and indemnities

The Company purchases appropriate liability insurance for all Directors and officers

Directors' Statutory Report

Directors' statement as to disclosure of information to auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware Each Director has taken all the steps that he is obliged to take as a Director in order to make him aware of any relevant audit information and to establish that the auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Going concern

The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future

The Directors have reviewed the Group's processes to control the financial risks to which the Company is exposed, its available liquidity, its regulatory capital position and the annual budget As a result of this review the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

By order of the Board

C F Hill

Director

28 August 2013

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

By order of the Board

C F Hill

Director

28 August 2013

Independent Auditors' Report

to the members of IG Markets Limited

We have audited the financial statements of IG Markets Limited for the year ended 31 May 2013 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Independent Auditors' Report

to the members of IG Markets Limited

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 May 2013 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Darren Ketteringham (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

28 August 2013

Statement of Comprehensive Income

for the year ended 31 May 2013

	Notes	*2013* *£000*	*2012* *£000*
Trading revenue		223,599	216,731
Interest income on segregated client funds	3	6,232	8,030
Revenue		229,831	224,761
Interest expense on segregated client funds		(19)	(13)
Introducing broker commissions		(31,991)	(29,322)
Other operating income	4	207	-
Net operating income		198,028	195,426
Analysed as			
Net trading revenue	3	191,608	187,409
Other net operating income		6,420	8,017
Administrative expenses		(83,981)	(90,733)
Operating profit	5	114,047	104,693
Finance revenue	9	1,699	1,839
Finance costs	10	(609)	(827)
Profit before taxation		115,137	105,705
Tax expense	11	(28,040)	(27,279)
Profit for the year		87,097	78,426

All of the Company's revenue and profit for the year and prior year relate to continuing operations The Company has no items of other comprehensive income and therefore a single statement of comprehensive income has been presented

The notes on pages 16 to 55 are an integral part of these financial statements

Statement of Financial Position

at 31 May 2013

	Notes	2013 £000	2012 £000
Assets			
Non-current assets			
Property, plant and equipment	12	453	320
Intangible assets	13	32	14
Investment in subsidiaries	14	3,856	3,856
Deferred tax asset	11	303	239
		4,644	4,429
Current assets			
Trade receivables	15	286,618	206,860
Prepayments and other receivables	16	58,734	95,030
Cash and short term deposits	17	68,969	209,445
Financial investments	18	50,468	-
		464,789	511,335
TOTAL ASSETS		469,433	515,764
Liabilities			
Current liabilities			
Trade payables	19	65,151	104,754
Other payables	20	51,212	145,903
Income tax payable		12,881	12,117
Total liabilities		129,244	262,774
Capital and reserves			
Equity share capital	21	13,000	13,000
Other reserves	22	708	606
Retained earnings	22	326,481	239,384
Total equity		340,189	252,990
TOTAL EQUITY AND LIABILITIES		469,433	515,764

The notes on pages 16 to 55 are an integral part of these financial statements

Approved by the Board of Directors and signed on their behalf by

Director

C F Hill

28 August 2013

Statement of Changes in Shareholders' Equity

for the year ended 31 May 2013

	Equity share capital £000	*Other reserves £000 (Note 22)*	*Retained earnings £000 (Note 22)*	*Total equity £000*
At 1 June 2011	13,000	427	160,958	174,385
Profit for the year	–	–	78,426	78,426
Total comprehensive income for the year	–	–	78,426	78,426
Excess of tax deduction benefit on share-based payments recognised directly in equity	–	4	–	4
Equity-settled employee share-based payments	–	175	–	175
Movement in shareholders' equity	–	179	78,426	78,605
At 31 May 2012	13,000	606	239,384	252,990
Profit for the year	–	–	87,097	87,097
Total comprehensive income for the year	–	–	87,097	87,097
Equity-settled employee share-based payments	–	140	–	140
Movement in fair value of financial investments	–	(38)	–	(38)
Movement in shareholders' equity	–	102	87,097	87,199
At 31 May 2013	13,000	708	326,481	340,189

The notes on pages 16 to 55 are an integral part of these financial statements

Cash Flow Statement

for the year ended 31 May 2013

	Notes	2013 £000	2012 £000
Operating activities			
Operating profit		114,047	104,693
Adjustments to reconcile operating profit to net cash flow from operating activities			
Net interest income on segregated client funds		(6,213)	(8,017)
Depreciation of property, plant and equipment	5, 12	261	227
Amortisation of intangible assets	5, 13	13	24
Equity settled share-based payments	8	140	175
Non-cash foreign exchange gains in operating profit		(4,189)	654
Impairment of trade receivables		825	1,635
(Increase)/decrease in trade and other receivables		(56,359)	79,820
(Decrease) in trade and other payables		(119,120)	(42,525)
Other non-cash items		82	-
Cash (used in)/ generated from operations		(70,513)	136,686
Income taxes paid		(27,096)	(33,190)
Interest received on segregated client funds		6,502	7,550
Interest paid on segregated client funds		(19)	(13)
Net cash (used in) / generated from operating activities		(91,126)	111,033
Investing activities			
Interest received		1,801	1,726
Purchase of property, plant and equipment	12	(394)	(259)
Payments to acquire intangible assets	13	(31)	-
Purchase of financial investments		(50,486)	-
Net cash (used in)/generated from investing activities		(49,110)	1,467
Financing activities			
Interest paid		(609)	(827)
Net cash used in financing activities		(609)	(827)
Net (decrease)/ increase in cash and cash equivalents		(140,845)	111,673
Cash and cash equivalents at the beginning of the year		209,445	98,528
Exchange gain/ (loss) on cash and cash equivalents		369	(756)
Net cash and cash equivalents at the end of year	17	68,969	209,445

The notes on pages 16 to 55 are an integral part of these financial statements

Notes to the Financial Statements

at 31 May 2013

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of IG Markets Limited for the year ended 31 May 2013 were authorised for issue by the Board of Directors on 28 August 2013 and the statement of financial position signed on the Board's behalf by C F Hill IG Markets Limited is incorporated and domiciled in England and Wales

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention The principal accounting policies adopted by the Company are set out in note 2

2. Accounting policies

Critical accounting estimates and judgements

The preparation of financial statements requires the Group to make estimates and judgements that affect the amounts reported for assets and liabilities as at the year-end and the amounts reported for revenues and expenses during the year The nature of estimates means that actual outcomes could differ from those estimates

In the Directors' opinion, the accounting estimates or judgements that have the most significant impact on the measurement of items recorded in the financial statements remain the amounts due from clients (refer to note 30), and the calculation of the Group's current corporation tax charge (refer to note 11)

The judgments in relation to impairment of trade receivables – amounts due from clients are dependent on historic levels of repayment and based upon individual circumstances

The calculation of the Group's current corporation tax charge involves a degree of estimation and judgement with respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority The Group holds tax provisions in respect of the potential tax liability that may arise on these unresolved items, however, the amount ultimately payable may be materially lower than the amount accrued and could therefore improve the overall profitability and cash flows of the Group in future periods

A deferred tax asset is only recognised to the extent it is considered to be probable that future operating profits will exceed the losses that have arisen to date

The measurement of the Group's net trading revenue is predominately based on quoted market prices (please refer to note 30 for the financial instrument valuation hierarchy disclosures) and accordingly involves little judgement However, the calculation of the segmental net trading revenue, as the Group manages risk and hedges on a group-wide portfolio basis, involves the use of an allocation methodology This allocation methodology does not impact on the overall Group net trading revenue disclosed

Basis of preparation

The accounting policies which follow have been consistently applied in preparing the financial statements for the year ended 31 May 2013 The financial statements are presented in Sterling

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year The nature of estimates means that actual outcomes could differ from those estimates

Notes to the Financial Statements

at 31 May 2013

2. Accountıng policies (continued)

Goıng concern

The Dırectors have prepared the fınancıal statements on a goıng concern basıs whıch requıres the Dırectors to have a reasonable expectatıon that the Group has adequate resources to contınue ın operatıonal exıstence for the foreseeable future

Parent company and Group financıal statements

The parent company throughout the year was Market Data Lımıted whıch ıs a wholly owned subsıdıary of IG Group Lımıted The ultımate parent company ıs IG Group Holdıngs plc

The Company ıs exempt under s400 of the Companıes Act 2006 from preparıng group fınancıal statements because they have been ıncluded ın the consolıdated fınancıal statements of IG Group Holdıngs plc, a company ıncorporated ın the Unıted Kıngdom

The fınancıal statements of IG Group Holdıngs plc and ıts subsıdıary companıes, whıch ınclude the results of IG Markets Lımıted, may be obtaıned from Cannon Brıdge House, 25 Dowgate Hıll, London EC4R 2YA The Group fınancıal statements were prepared ın accordance wıth Internatıonal Fınancıal Reportıng Standards (IFRS) as adopted by the EU as they apply to the fınancıal statements of the group for the year ended 31 May 2013 applıed ın accordance wıth the provısıons of the Companıes Act 2006

Foreıgn currencıes

The Company's functıonal currency ıs Sterlıng Transactıons ın foreıgn currencıes are translated ınto the functıonal currency at the rate prevaılıng on the date of the transactıon Monetary assets and lıabılıtıes denomınated ın foreıgn currencıes are retranslated at the rate of exchange prevaılıng at the statement of fınancıal posıtıon date Non-monetary assets and lıabılıtıes carrıed at faır value that are domınated ın foreıgn currencıes are translated at the rates prevaılıng at the date when the faır value was determıned Gaıns and losses arısıng on translatıon are taken to the statement of comprehensıve ıncome

Investments ın subsıdıarıes

Investments ın subsıdıarıes are stated at cost less accumulated ımpaırment losses

Property, plant and equıpment

Property, plant and equıpment are stated at cost less accumulated depreciatıon and any recognısed ımpaırment loss Cost comprıses the aggregate amount paıd and the faır value of any other consıderatıon gıven to acquıre the asset and ıncludes costs dırectly attrıbutable to makıng the asset capable of operatıng as ıntended

Notes to the Financial Statements

at 31 May 2013

2. Accounting policies (continued)

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based upon estimated useful lives Estimated residual value and useful lives are reviewed on an annual basis and residual values are based on prices prevailing at the statement of financial position date Depreciation is charged on a straight line basis over the expected useful lives as follows

- Leasehold improvements - over the lease term of up to 15 years
- Office equipment, fixtures and fittings - over 5 years
- Computer and other equipment - over 2, 3 or 5 years
- Motor Vehicles - over 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset The gain or loss arising on derecognition of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in the statement of comprehensive income in the period of derecognition

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses

Intangible assets acquired separately from a business are carried initially at cost An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is séparable or arises from contractual or other legal rights and its fair value can be measured reliably Expenditure on internally developed intangible assets, excluding development costs, is taken to the statement of comprehensive income in the year in which it is incurred Development expenditure is recognised as an intangible asset only after all the following criteria are met

- the project's technical feasibility and commercial viability can be demonstrated,
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed, and
- the correlation between development costs and future revenue has been established

Following initial recognition, the historical cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows

- Development costs - over 3 years
- Software and licences - over the contract term of up to 5 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use

Notes to the Financial Statements

at 31 May 2013

2. Accounting policies (continued)

Impairment of assets

At least annually, or when annual impairment testing is required, the Directors review the carrying amounts of the Company's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss 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) Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs

The recoverable amount is the higher of fair value less selling costs and value in use In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate This rate reflects current market assessments of the time value of money as well as the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount Impairment losses are recognised as an expense immediately

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised If that is the case the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset in prior years A reversal of an impairment loss is recognised as income immediately

Operating leases

Leases are classified as operating leases where the lessor retains substantially all the risks and benefits of ownership of the asset Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit

Financial instruments

The Company determines the classification of its financial instruments at initial recognition in accordance with the categories outlined below and re-evaluates this designation at each financial year end When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs Financial instruments are disclosed in note 29 to the financial statements

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified as held for trading, or designated as such on inception, are included in this category and relate to trade receivables and trade payables as shown in the statement of financial position Financial instruments are classified as held for trading if they are expected to settle in the short term The Company uses derivative financial instruments, in order to hedge exposures resulting from derivatives with clients, which are also classified as held for trading unless they are designated as hedging instruments

All financial instruments at fair value through the profit and loss are carried in the statement of financial position at fair value with gains or losses recognised in the statement of comprehensive income

Determination of fair value

Financial instruments arising from open client positions and the Company's hedging positions are stated at fair value and disclosed according to the valuation hierarchy required by IFRS 7 Fair values are predominantly determined by reference to third party market values (bid prices for long positions and offer prices for short positions) as detailed below

Level 1 Valued using unadjusted quoted prices in active markets for identical financial instruments

Notes to the Financial Statements

at 31 May 2013

2. Accounting policies (continued)

Determination of fair value

Level 2 Valued using techniques where a price is derived based significantly on observable market data For example, where an active market for an identical financial instrument to the product offered by the Group to its clients or used by the Group to hedge its market risk does not exist

Level 3 Valued using techniques that incorporate information other than observable market data that is significant to the overall valuation

Financial investments

Financial investments are held as available-for-sale and are non-derivative financial assets that are not classified as held for trading, designated at fair value through profit or loss, or loans and receivables Financial investments are recognised on a trade date basis They are initially recognised at fair value plus directly related transactions costs They are subsequently carried at fair value Fair value is the quoted market price of the specific investments held

Financial investments available-for-sale are carried at fair value Unrealised gains or losses are reported in equity (in the available for sale reserve) and in other comprehensive income, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired On disposal of an investment, the accumulated unrealised gain or loss included in equity is recycled to the income statement for the period and reported in other income Gains and losses on disposal are determined using the average cost method

Interest on financial investments are included is included in interest using the Effective Interest Rate (EIR) method

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18 Revenue), transaction costs, and all other premiums or discounts

At the year-end date the Group considers whether there is objective evidence that a financial investment available-for-sale is impaired In case of such evidence, it is considered impaired if its cost exceeds the recoverable amount The recoverable amount for a quoted financial investment available-for-sale is determined by reference to the market price A quoted financial investment available-for-sale is considered impaired if objective evidence indicates that the decline in market price has reached such a level that recovery of the cost value cannot be reasonably expected within the foreseeable future

If a financial investment available-for-sale is determined to be impaired, the cumulative unrealised loss previously recognised in equity is recycled to profit for the period and reported in other income

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires

Financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired, the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is

Notes to the Financial Statements

at 31 May 2013

2. Accounting policies (continued)

recognised to the extent of the Company's continuing involvement in the asset Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

Trade receivables and trade payables

Assets or liabilities resulting from profit or losses on open positions are carried at fair value Amounts due from/to clients and brokers are netted against other assets and liabilities with the same counterparty where a legally enforceable netting agreement is in place and where it is anticipated that assets and liabilities will be netted on settlement

Trade receivables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions result in an amount due to the Company A provision for impairment is established where there is objective evidence of non-collectability Reference is made to an aged profile of debt and the provision is subject to management review

Trade payables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions results in an amount payable by the Company

Prepayments and other receivables

Prepayments and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as fair value through profit and loss Such assets are carried at amortised cost using the effective interest method if the time value of money is significant Gains and losses are recognised in income when the receivables are derecognised or impaired, as well as through the amortisation process A provision for impairment is established where there is objective evidence of non-collectability

Cash and cash equivalents

Cash comprises cash on hand and demand deposits which may be accessed without penalty Cash equivalents comprise short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value For the purposes of the cash flow statement, net cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

The Company holds money on behalf of clients in accordance with the client money rules of the UK Financial Conduct Authority (FCA) and other regulatory bodies Such monies are classified as either 'cash and cash equivalents' or 'segregated client funds' in accordance with the relevant regulatory requirements Segregated client funds comprise retail client funds held in segregated client money accounts or money market facilities Segregated client money accounts hold statutory trust status restricting the Company's ability to control the monies and accordingly such amounts and are not held on the Company's statement of financial position

The amount of segregated client funds held at year-end is disclosed in notes 17 and 19 to the financial statements The return received on managing segregated client funds is included within net operating income

Title transfer funds are held by the Company under a Title Transfer Collateral Arrangement (TTCA) by which a client agrees that full ownership of such monies is unconditionally transferred to the Company Title transfers funds are accordingly held on the Company's statement of financial position with a corresponding liability to clients within trade payables

Notes to the Financial Statements

at 31 May 2013

2. Accounting policies (continued)

Other payables

Non trading financial liabilities are recognised initially at fair value and carried at amortised cost using the effective interest rate method if the time value of money is significant

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated Where material, provisions are discounted and recognised at the present value of expenditures expected to settle the obligation with the unwind of the discount recognised as an interest expense

Taxation

The income 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 period Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date

Deferred tax is generally accounted for on all temporary differences between the carrying amount of assets and liabilities in the financial statements 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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company 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 amount of deferred tax assets is reviewed at each statement of financial position 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 assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date Deferred tax is charged or credited in the statement of comprehensive income, 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 Company intends to settle its current tax assets and liabilities on a net basis

Equity shares

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs Equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities

Revenue recognition

Trading revenue represents gains and losses arising on client trading activity primarily in contracts for difference, binary bets and the transactions undertaken to hedge the risk associated with client trading activity Open client and hedging positions are carried at fair market value and gains and losses arising on this valuation are recognised in revenue as well as gains and losses realised on positions that have closed The policies and methodologies associated with the determination of fair value have been discussed above under Financial Instruments

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured

Notes to the Financial Statements

at 31 May 2013

2. Accounting policies (continued)

Trading revenue is reported gross of introducing broker commission as these amounts are directly linked to trading revenue Introducing broker commission paid is disclosed as an expense in arriving at net operating income

Finance revenue and interest income on segregated client funds is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable The effective interest rate is the rate which exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount Interest income on segregated client funds is disclosed within revenue and therefore operating profit as this is consistent with the nature of the Company's operations

Net trading revenue, disclosed on the face of the statement of comprehensive income and in the notes to the financial statements, represents trading revenue from financial instruments carried at fair value through profit and loss and has been disclosed net of introducing broker commission as this is consistent with the management information received by the Chief Operating Decision Maker

Dividends receivable are recognised when the shareholder's right to receive the payment is established

Operating profit

Operating profit is the results of the principal activities of the Company after charging depreciation of property, plant and equipment, amortisation of intangible assets, impairment of trade receivables, foreign exchange differences, intercompany recharge of staff costs and other administrative expenses

Finance costs and interest expense on segregated client funds

The interest cost recognised in the statement of comprehensive income is accrued on a time basis by reference to the principal amount charged at the effective interest rate applicable The effective interest rate is the rate that exactly discounts the future expected cash flows to the carrying amount of the liability Issue costs are included in the determination of the effective interest rates

Interest expense on segregated client funds is disclosed within operating profit as this is consistent with the nature of the Company's operations

Retirement benefit costs

The Company operates a defined contribution scheme Contributions are charged in the statement of comprehensive income as and when they become payable according to the rules of scheme

Share-based payments

The ultimate parent company, IG Group Holdings plc, operates two employee share plans A Value Share Plan (VSP) and Long-Term Incentive Plan (LTIPs) both of which are equity-settled The cost of these awards is measured at fair value based on the market price of IG Group Holdings plc's shares at the date of the grant and are recognised as an expense in the statement of comprehensive income on a straight line basis over the vesting period based on estimated number of shares that will eventually vest

At each statement of financial position date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions determining the number of equity instruments that will ultimately vest The movement in cumulative expense since the previous statement of financial position date is recognised in the statement of comprehensive income as part of administrative expenses, with a corresponding entry in equity

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders

Changes in accounting policies

The accounting policies adopted in the preparation of financial statements are consistent with those followed in the preparation of the Group's Annual Report for the year ended 31 May 2013

Notes to the Financial Statements

at 31 May 2013

2. Accounting policies (continued)

New and amended standards adopted by the Company

The Group has early adopted the following new or amended standards as of 1 June 2012

- Amendment to IAS 1 "Presentation of items of Other Comprehensive Income" (effective for periods beginning after 1 July 2012)

Other new standards, amendments and interpretations, including those listed below, have been issued but are not effective for accounting periods beginning 1 June 2012 and have not been early adopted by the Company

- IFRS 9 "Financial Instruments", issued in November 2009, amended 2010 This standard is the first step in the process to replace IAS 39, "Financial Instruments, recognition and measurement" IFRS 9 introduces new requirements for classifying and measuring financial assets The standard is not applicable until 1 January 2015 and has not yet been endorsed by the EU The Group has yet to assess the impact of IFRS 9
- IFRS 13 "Fair value measurement" (effective 1 January 2013)
- IFRS 11 "Joint Arrangements" (effective 1 January 2013)
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013)
- IAS 19 (revised 2011) "Employee benefits" (effective 1 January 2013)
- Amendment to IFRS 7 "Financial instruments Disclosures" (effective 1 July 2013)
- IAS 32 "Financial instruments Presentation" (effective 1 January 2014)
- Amendment to IAS 28 "Investment in Associates and Joint Ventures" (effective 1 January 2013)
- Amendment to IFRS 7 "Disclosures - Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2013)
- Amendment to IAS 19 "Employee Benefits" (Effective 1 January 2013)

The new standards and amendments above are not expected to have a material impact on the Company

3. Revenue

Net trading revenue represents the net trading income from financial instruments carried at fair value through profit and loss, net of introducing broker commission Revenue from external customers includes interest income on segregated client funds and is analysed as follows

	2013	*2012*
	£000	*£000*
Net trading revenue	191,608	187,409
Interest income on segregated client funds	6,232	8,030
Revenue from external customers	197,840	195,439

In addition to the above, Finance revenue is disclosed in note 9

Notes to the Financial Statements

at 31 May 2013

4. Other operating income

	2013	2012
	£000	£000
Inactivity fees[1]	207	-

[1]In the year ended 31 May 2013, the Company commenced charging inactivity fees for those accounts on which clients had not traded for two years

5. Operating profit

	2013	2012
	£000	£000
This is stated after charging/(crediting)		
Depreciation of property, plant and equipment	261	227
Amortisation of intangible assets	13	24
Operating lease rentals	1,985	2,495
Impairment of trade receivables	464	1,131
Foreign exchange differences	(4,193)	(654)
Advertising and marketing	15,044	13,744
Legal and professional[1]	4,722	5,777

All of the above, except foreign exchange differences are included in the administrative expenses on the statement of comprehensive income are presented net of recharges from a fellow Group subsidiary Foreign exchange differences are included in revenue

[1] Legal and professional fees include costs of £3 4 million (2012 £1 1 million) incurred in defence of claims made in relation to the insolvency of Echelon Wealth Management Limited Following the closure of this claim against the Group the plaintiffs have paid a £2 8 million contribution to the Group's legal costs This contribution has been recorded within legal and professional fees

	2013	2012
	£000	£000
Administrative expenses include the following recharges/ (income) from a fellow Group subsidiary		
Staff costs	37,239	37,629
Operating lease rentals	405	968
IT Maintenance and support	2,305	1,928
Regulatory fees	(325)	279
Other	8,191	6,134
Total expenses recharged from a fellow Group subsidiary	47,815	46,938

Refer to notes 8 and 28 for further information regarding recharged expenses included in operating profit

Notes to the Financial Statements

at 31 May 2013

6. Auditors' remuneration

Audit fees in relation to audit of financial statements of the Company and its branches amounting to £42,000 (2012 £35,000) are borne by a fellow Group undertaking

	2013	2012
Audit related fees	£000	£000
Fee's payable to the Company's auditor for the audit of the Company's financial statements	11	7
Statutory and regulatory audit of branches of the Company pursuant to legislation	31	28
Other assurance services	8	-
Total audit related fees	50	35
Other fees to auditors		
Other services relating to taxation		
- Compliance-related services	105	100
- Advisory-related services	13	27
All other services	44	-
Total other fees	162	127

7. Directors' emoluments

Directors' emoluments represent amounts paid to Directors for services to the Group Only a proportion of these relate to IG Markets Limited These costs are paid by other group companies

	2013	2012
	£000	£000
Salaries and other short term employee benefits	2,149[1]	3,786
Pension contributions	175[1]	185
Share-based payments	1,346	1,689
	No	No
Members of money purchase pension scheme	3	4

	2013	2012
	£000	£000
Highest paid Director		
Emoluments	827	1,234
Pension contributions	64	62

[1]Includes £140,000 and £21,000 respectively for loss of office for A MacKay (2012 £nil)

Notes to the Financial Statements

at 31 May 2013

8. Staff costs

The Company has direct employees in its overseas branches The average monthly number of employees during the year was 72 (2012 73) All employees in the UK are employed by a fellow Group company The staff costs presented below are in relation to direct employees only, who are employed in sales and marketing The staff costs for the year were as follows

	2013	*2012*
	£000	*£000*
Wages and salaries	4,006	7,965
Social security costs	1,117	1,488
Other pension costs	115	76
	5,238	9,529

Wages and salaries include the following amounts in respect of performance related bonuses, excluding national insurance, and share-based payments charged to the statement of comprehensive income

	2013	*2012*
	£000	*£000*
Performance related bonuses	454	5,322
Equity settled share-based payments	140	175
	594	5,497

Staff costs recharged by the fellow group company for services provided by UK staff amounted to £37,239,000 (2012 £37,629,000)

9. Finance revenue

	2013	*2012*
	£000	*£000*
Bank interest receivable	854	1,184
Interest receivable on financial investments	20	-
Interest receivable from brokers	825	655
	1,699	1,839

Notes to the Financial Statements

at 31 May 2013

10. Finance costs

	2013	*2012*
	£000	*£000*
Interest payable to clients	87	187
Interest payable to brokers	86	164
Bank interest payable	-	23
Interest paid to a fellow group subsidiary	436	453
	609	827

11. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the statement of comprehensive income

	2013	*2012*
Current income tax	*£000*	*£000*
Corporation tax	27,327	27,489
Adjustment in respect of prior years	777	(297)
Total current income tax	28,104	27,192
Deferred tax		
Origination and reversal of timing differences	(64)	87
Tax expense in the statement of comprehensive income	28,040	27,279

Notes to the Financial Statements

at 31 May 2013

11. Taxation (continued)

(b) Reconciliation of the total tax charge

The rate of corporation tax in the UK changed to 23% during the year ended 31 May 2013 The tax expense in the statement of comprehensive income for the year is different to the weighted average standard rate of corporation tax in the UK of 23 83% (2012 25 67%) The differences are reconciled below

	2013	*2012*
	£000	*£000*
Accounting profit before taxation	115,137	105,705
Accounting profit multiplied by the UK standard rate of corporation tax at 23 83% (2012 25 67%)	27,437	27,134
Effects of		
Expenses not deductible for tax purposes	744	92
Non-taxable amounts	-	-
Non-payment for group relief	(1,550)	-
Effect of foreign tax rates	682	350
Tax over/(under) provided in previous years	777	(297)
Impact of timing differences not previously recognised	(50)	-
Total tax expense reported in the statement of comprehensive income	28,040	27,279

The effective corporation tax rate is 24 4% (2012 25 8%)

(c) Deferred income tax assets

The deferred income tax assets included in the statement of financial position are as follows

	2013	*2012*
	£000	*£000*
Depreciation in excess of capital allowances	19	204
Other timing differences	284	35
	303	239

The movement in the deferred income tax included in the statement of financial position is as follows

	2013	*2012*
	£000	*£000*
At the beginning of the year	239	323
Statement of comprehensive income / (charge)	64	(88)
Tax credited directly to equity	-	4
	303	239

Notes to the Financial Statements

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11. Taxation (continued)

(d) Deferred income tax – statement of comprehensive income charge

	2013	2012
	£000	£000
The deferred income tax (charge)/credit included in the statement of comprehensive income is made up as follows		
Decelerated/(accelerated) capital allowances	(185)	41
Bad debt provision	-	46
Other timing differences	249	-
	64	87
The deferred tax credited to equity during the year is as follows		
Share-based payments	-	4

The effect of the change in UK corporation tax to 23% from 1 April 2013 on the deferred tax assets is not significant and is included in the movements above

(e) Factors affecting the tax charge in future years

Factors that may affect the Company's future tax charge include the geographic location of the Company's earnings, the transfer pricing policies, the tax rates in those locations, changes in tax legislation, future planning opportunities, the use of brought-forward tax losses and the resolution of open tax issues The calculation of the Company's total tax charge involves a degree of estimation and judgement with respect to the recognition of deferred tax assets (refer to note 11(c)) and of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority The Company holds tax provisions in respect of the potential tax liability that may arise on these unresolved items, however, the amount ultimately payable may be materially lower than the amount accrued and could therefore improve the overall profitability and cash flows of the Group in future periods

On 1 April 2013 the main rate of corporation tax reduced from 24% to 23% Further reductions to 21% from 1 April 2013 and 20% from 1 April 2015 were enacted on 17 July 2013 when the Finance Act 2013 received Royal Assent The full impact of the reduction to 20% on the deferred tax assets held at 31 May 2013 is not expected to be material The Company will assess the impact of the reductions in line with its accounting policy in respect of deferred tax at each reporting date

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at 31 May 2013

12. Property, plant and equipment

	Leasehold improvements £000	*Office equipment, fixtures and fittings £000*	*Computer, and other equipment £000*	*Motor Vehicles £000*	*Total £000*
Cost					
At 1 June 2011	469	189	193	-	851
Additions	162	32	40	25	259
Written off	(141)	-	(48)	-	(189)
At 31 May 2012	490	221	185	25	921
Additions	232	90	72	-	394
Written off	(101)	(21)	(22)	-	(144)
At 31 May 2013	621	290	235	25	1,171
Depreciation					
At 1 June 2011	320	100	143	-	563
Provided during the year	130	42	47	8	227
Written off	(141)	-	(48)	-	(189)
At 31 May 2012	309	142	142	8	601
Provided during the year	147	60	46	8	261
Written off	(101)	(21)	(22)	-	(144)
At 31 May 2013	355	181	166	16	718
Net book value					
At 31 May 2013	266	109	69	9	453
At 31 May 2012	181	79	43	17	320
At 1 June 2011	149	89	50	-	288

Notes to the Financial Statements

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13. Intangible assets

	Development costs £000	*Software and licences £000*	*Total £000*
Cost			
At 1 June 2011	5	316	321
Additions	-	-	-
Written off	-	(82)	(82)
At 31 May 2012	5	234	239
Additions	-	31	31
Written off	-	(2)	(2)
At 31 May 2013	5	263	268
Amortisation			
At 1 June 2011	5	278	283
Provided during the year	-	24	24
Written off	-	(82)	(82)
At 31 May 2012	5	220	225
Provided during the year	-	13	13
Written off	-	(2)	(2)
At 31 May 2013	5	231	236
Net book value			
At 31 May 2013	-	32	32
At 31 May 2012	-	14	14
At 1 June 2011	-	38	38

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at 31 May 2013

14. Investment in subsidiaries

At cost	*2013*	*2012*
	£000	*£000*
At beginning and end of the year	3,856	3,856

The following companies are all owned directly or indirectly by IG Markets Ltd

Name of company	*Country of incorporation*	*Holding*	*Proportion of voting rights held*	*Nature of business*
Subsidiary undertakings held directly				
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
ITS Market Solutions Limited	UK	Ordinary shares	60%	Software
IG Finance 9 Limited	UK	Ordinary shares	100%	Financing
Subsidiary undertakings held indirectly				
IG Asia Pte Limited	Singapore	Ordinary shares	100%	CFD trading

IG Nominees Limited and IG Finance 9 Limited are not subject to an audit by virtue of s479A of the Companies Act 2006 relating to subsidiary companies As at 31 May 2013, ITS Market Solutions Limited was in the process of being liquidated

15. Trade receivables

	2013	*2012*
	£000	*£000*
Amounts due from brokers	281,983	204,928
Amounts due from clients	523	624
Other amounts due to the Company[1]	4,112	1,308
	286,618	206,860

[1]Other amounts due to the Company represent balances that will be transferred to the Company's own cash from segregated client funds on the immediately following working day in accordance the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates At 31 May 2013 this also includes amounts due from banking counterparties or held within segregated client funds in relation to monies transferred by clients to the Group that remain unsettled at the year-end The Group is required to segregate these client funds at the point of client funding and not at cash settlement

Notes to the Financial Statements

at 31 May 2013

16. Prepayments and other receivables

	2013	*2012*
	£000	*£000*
Other debtors	940	1,572
Prepayments	1,455	1,490
Amounts due from Group companies (note 28)	56,339	91,968
	58,734	95,030

The amounts due from Group companies are unsecured, interest free and are repayable on demand

17. Cash and short term deposits

	2013	*2012*
	£000	*£000*
Gross cash and short term deposits[1]	444,439	548,436
Less Segregated client funds[2]	(375,470)	(338,991)
Own cash and title transfer funds[3]	68,969	209,445

[1] Gross cash and cash equivalents includes the Company's own cash as well as all client monies held including both segregated client and title transfer funds

[2] Segregated client funds comprise retail client funds held in segregated client money accounts or money market facilities established under the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Company operates Such monies are not included in the Company's Statement of Financial Position

[3] Title transfer funds are held by the Company under a Title Transfer Collateral Arrangement (TTCA) by which a client agrees that full ownership of such monies is unconditionally transferred to the Company

Cash and cash equivalents are deposited for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates

Undrawn committed Group borrowing facilities amounted to £180 0m (2012 £180 0m) at year end On 19 July 2013 completed the renegotiation of the liquidity facilities with a syndicate of three banks In doing so the Group has increased the size of the overall facility to £200 0 million (see note 32) Company cash was used to purchase financial investments during the year (see Note 18) and an increase in broker debtors reduced available cash

18. Financial investments

	2013	2012
	£000	£000
UK Government securities	50,468	-

All financial investments are shown as current assets as they have a maturity less than one year

Notes to the Financial Statements

at 31 May 2013

18. Financial investments (continued)

The UK Government securities are held by the Group in satisfaction of the FCA requirements to hold a "liquid asset buffer" against potential liquidity stress under BIPRU 12

The fair value of securities held is based on closing market prices at the year-end as published by the UK Debt Management Office

19. Trade payables

	2013	*2012*
	£000	*£000*
Amounts due to title transfer clients	18,465	59,852
Intercompany hedging relationship with fellow group subsidiaries (note 28)	45,626	40,079
Other amounts due to clients[1]	467	-
Other trade payables	593	4,823
	65,151	104,754

[1]Other amounts due to clients represent balances that will be transferred from the Company's own cash into segregated client funds on the immediately following working day in accordance with the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

20. Other payables

	2013	*2012*
	£000	*£000*
Accruals and deferred income	9,650	12,609
Other taxes and social security	55	131
Amounts due to Group companies (note 28)	41,507	133,163
	51,212	145,903

21 Equity share capital

	2013	*2012*
	£000	*£000*
Allotted, called up and fully paid		
13,000,000 ordinary shares of £1 each	13,000	13,000

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22. Retained earnings and other reserves

Retained earnings

Retained earnings include profit and losses charged to the statement of comprehensive income

Other reserves

Other reserves include a share-based payments reserve and an available for sale reserve

The share-based payments reserve represents the equity contribution by the ultimate parent company, IG Group Holdings plc, for the equity-settled share-based payments made by IG Group Holdings plc to employees of the Company

The Available for Sale (AFS) reserve records movements in the fair value of financial investments (see Note 18) designated as available for sale, in accordance with IAS 39

23. Employee share plans

The ultimate holding company, IG Group Holdings plc, operates two employee share plans for the employees of IG Markets Limited, a Value-Sharing Plan (VSP) and a Long-Term Incentive Plan (LTIP) both of which are equity-settled The final awards made under the LTIP vested on 25 September 2012 The entries in the financial statements in respect of share-based payments are as follows

	2013	*2012*
	£000	*£000*
Equity settled share-based payment schemes	140	175
Expense recharged from fellow subsidiaries	2,082	2,365
Expense recognised in statement of comprehensive income	2,222	2,540

Value Sharing Plan (VSP)

The VSP award was introduced during the year ended 31 May 2011 onwards to replace the LTIP award VSP awards are conditional awards made available to Executive Directors and other senior staff The Remuneration Committee has responsibility for agreeing any awards under the plan and for setting the policy for the way in which the plan should be operated, including agreeing performance targets and which employees should be invited to participate Participants do not pay to receive awards or to receive release of shares The VSP performance targets vest after 3 years with a pre-defined number of shares allocated, for each £10m of surplus shareholder value created over the three year period above a hurdle Half of the shares vest after 3 years and can be exercised at that date, with the remaining half being deferred for a further year, conditional upon continued employment at the vesting date The VSP is based upon two performance conditions, Total Shareholder Return (TSR) and profit before taxation

The maximum number of VSP shares that vest based on the awards made are

Notes to the Financial Statements

at 31 May 2013

23. Employee share plans (continued)

Award date	*Share price at award*	*Expected vesting date*	*At the start of the year*	*Awarded during the year*	*Lapsed during the year*	*Exercised during the year*	*At the end of the year*
			Number	*Number*	*Number*	*Number*	*Number*
29 Oct 2010	528 50p	31 Jul 2013	29,378	-	-	-	29,378
29 Oct 2010	528 50p	31 Jul 2014	29,378	-	-	-	29,378
20 July 2011	450 00p	31 Jul 2014	66,840	-	-	-	66,840
20 July 2011	450 00p	31 Jul 2015	66,839	-	-	-	66,839
1 Aug 2012	449 70p	31 Jul 2015	-	286,360	-	-	286,360
1 Aug 2012	449 70p	31 Jul 2016	-	286,367	-	-	286,367
Total			192,435	572,727	-	-	765,162

Long Term Incentive Plan (LTIP)

LTIP awards were made available to Executive Directors and other senior staff in the years ended 31 May 2005 to 31 May 2010 which were then replaced by the VSP award

LTIP awards allowed the award of nil cost or nominal cost shares which were legally classified as options and vested when specific performance targets were achieved, conditional upon continued employment at the vesting date For each award a minimum performance target has to be achieved before any shares vest and the awards vest fully once the maximum performance target is achieved

The maximum number of LTIP awards that can be exercised are

Award date	*Share price at award*	*Expected vesting date*	*At the start of the year*	*Awarded during the year*	*Lapsed during the year*	*Exercised during the year*	*At the end of the year*
			Number	*Number*	*Number*	*Number*	*Number*
25 Sept 2009	318 80p	25 Sept 2012	39,039	-	(13,304)	(25,735)	-
Total			39,039	-	(13,304)	(25,735)	-

Fair value of equity-settled awards

The fair value of the equity-settled share-based payments to employees is determined at the grant date For VSP awards made under the growth in profit before tax criteria, the fair value is determined to be the share price at the date of grant after a deduction for the expected present value of future dividends, over the vesting period For VSP awards made under the Total Shareholder Return (TSR) criteria, fair value is calculated using a Monte-Carlo pricing model Please refer to the Director's Remuneration report for more information

Notes to the Financial Statements

at 31 May 2013

23. Employee share plans (continued)

The ınputs below were used to determıne the faır value of the VSP award ıssued on 1 August 2012

Share prıce at grant date (pence)	449 70
3 month average market capıtalısatıon at award date (£m)	£1,636m
Expected lıfe of awards (years)	2 75
Rısk-free sterlıng ınterest rate (%)	0 13
IG expected volatılıty (%)	29
Benchmark ındex expected volatılıty (%)	25
Expected dıvıdend yıeld (%)	4 6

The weıghted average faır values per award granted are as follows

	At the beginnıng of the year	*Awarded durıng the year*	*Lapsed durıng the year*	*Exercısed durıng the year*	*At the end of the year*
Year ended 31 May 2013	283 83p	237 15p	276 40p	276 40p	249 27p
Year ended 31 May 2012	300 11p	260 20p	nıl	278 25p	283 83p

24. Obligations under leases

Operating lease agreements where the Company ıs lessee

The Company has entered ınto commercıal leases on certaın propertıes The lessee has optıons of renewal on each of these leases wıth a notıce perıod of three months There were no restrıctıons placed upon the lease by enterıng ınto these leases Future mınımum rentals payable under non-cancellable operatıng leases are as follows

	2013	*2012*
Future mınımum payments due	*£000*	*£000*
Not later than one year	675	525
After one year but not more than fıve years	1,126	1,357
After more than fıve years	-	7
	1,801	1,889

25. Litigation

On the 27 March 2013, the Hıgh Court dısmıssed the claım agaınst IG Markets Lımıted, whıch dated from late 2010, ın relatıon to the ınsolvency of Echelon Wealth Management Lımıted, a former clıent of IG Markets Lımıted No provısıon had been made ın the Company statement of fınancıal posıtıon as at 31 May 2012 Subsequently the plaıntıffs chose not to appeal and have paıd a substantıal contrıbutıon to the legal costs ıncurred by the Company

Notes to the Financial Statements

at 31 May 2013

26. Capital commitments

Capital expenditure contracted for at the year-end but not yet incurred is as follows

	2013	2012
	£000	£000
Computer equipment	11	1
Software	57	-
	68	1

Capital commitments for non-current assets at 31 May 2013 primarily relate to the costs associated with the provision of software licences for the Company's European offices

27 Transactions with Directors

The Directors of IG Markets Limited held shares of the ultimate parent company, IG Group Holdings plc, as disclosed in the Directors' report The Company had no other transactions with its Directors other than in relation to the management of the Company

28. Related party transactions

The Directors are considered to be the key management personnel of the Group in accordance with IAS 24 The total compensation for key management personnel was as follows

	2013	2012
	£000	£000
Salaries and other short-term employee benefits	(1)2,149	3,786
Post-employment benefits	(1)175	185
Share-based payments	1,346	1,689
	3,670	5,660

Compensation for key management personnel represents amounts paid to Directors for services to the Group Only a portion of these relate to services to IG Markets Limited

(1)Includes £140,000 and £21,000 respectively for loss of office for A MacKay (2012 £nil)

Notes to the Financial Statements

at 31 May 2013

28. Related party transactions (continued)

During the year the Company entered into transactions, in the ordinary course of business, with other related parties Transactions entered into, and trading balances outstanding at 31 May 2013 with other related parties, are as follows

Related party	*Expenses recharged to related parties £000*	*Expenses recharged from related parties £000*	*Amounts owed by related parties £000*	*Amounts owed to Related parties £000*
Parent and ultimate controlling party				
2013	-	-	23,656	-
2012	-	-	26,229	-
Fellow Group subsidiaries				
2013	-	47,815	32,683	87,133
2012	-	46,938	65,739	173,242
Total Group				
2013	-	47,815	56,339	87,133
2012	-	46,938	91,968	173,242

Included within amounts recharged from related parties are staff costs, operating lease rentals, IT Maintenance and support, regulatory fees and various other costs Refer to notes 5 and 7 for information regarding these expenses

Included within amounts owed to related parties are trade payables of £45 6 million (2012 £40 1 million) in relation to an intercompany hedging relationships with a fellow Group subsidiaries and £41 5 million (2012 £133 1 million) included within other payables Refer to notes 19 and 20 respectively

Terms and conditions of transactions with related parties

Expenses recharges between related parties are made at arm's length prices During the year ended 31 May 2013, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2012 nil)

Refer to note 10 for information regarding interest paid on amounts owed to related parties

Notes to the Financial Statements

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29. Financial instruments

Accounting classifications and fair values

The table below sets out the classification of each class of financial assets and liabilities and their fair values (excluding accrued interest) The Company considers the carrying value of all financial assets and liabilities to be a reasonable approximation of fair value and represents the Company's maximum credit exposure without taking account of any collateral held or other credit enhancements

'Cash and cash equivalents' represent cash held on demand and on deposit with financial institutions

'Trade receivables - due from brokers' represent balances with brokers where the combination of cash held on account (disclosed as loans and receivables) and the valuation of financial derivative open positions (disclosed as held for trading) results in an amount due to the Company These positions are held to hedge client market exposures and hence are considered to be held for trading and are accordingly accounted for at fair value through profit and loss (FVTPL) These transactions are conducted under terms that are usual and customary to standard margin trading activities and are reported net in the statement of financial position as the Company has both the legal right and intention to settle on a net basis

'Trade receivables - due from clients' represent balances owed to the Company by clients Open client positions that are neither past due nor impaired are disclosed as held for trading, while receivables in respect of closed client positions are disclosed as loans and receivables

'Trade payables - due to clients' represent balances where the combination of client cash held on account (disclosed as loans and receivables) and the valuation of financial derivative open positions (disclosed as held for trading) results in an amount payable by the Company Trade payables – due to clients are reported net in the Company's Statement of Financial Position as the Company adjusts the gross amount payable to clients (i e monies held on behalf of clients) for profits or losses incurred on a daily basis consistent with the legal right and intention to settle on a net basis

'Financial investments' represent UK government securities held by the Company in satisfaction of the FCA requirements to hold a Liquid Assets Buffer against potential liquidity stresses (see note 18) They are accounted for as available for sale assets

Notes to the Financial Statements

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29. Financial instruments (continued)

Classification of financial instruments

As at 31 May 2013	*FVTPL- Held for trading £000*	*Loans and receivables £000*	*Other amortised cost £000*	*Available for sale £000*	*Total carrying amount £000*	*Fair value £000*
Financial assets						
Cash and cash equivalents	-	68,969	-	-	68,969	68,969
Financial investments	-	-	-	50,468	50,468	50,468
Trade receivables – due (to)/from brokers	-	-	-			
Non-exchange traded instruments	(1,071)	188,740	-	-	187, 669	187,669
Exchange-traded instruments	(826)	95,140	-	-	94,314	94,314
Total trade receivables – due (to)/ from brokers	(1,897)	283,880	-	-	281,983	281,983
Trade receivables – due from clients	-	523	-	-	523	523
Trade receivables – other amounts due from clients	-	4,112	-	-	4,112	4,112
	(1,897)	357,484	-	50,468	406,055	406,055
Financial liabilities						
Trade payables – due to title transfer clients	-	-	(18,465)	-	(18,465)	(18,465)
Trade payables – other amounts due to clients	-	(467)	-	-	(467)	(467)
	-	(467)	(18,465)	-	(18,932)	(18,932)

Excluded from the financial assets classified as 'loans and receivables' are amounts due from Group companies £56 3 million (2012 £92 0 million) Refer to notes 16 and 28

Excluded from the financial liabilities classified as 'other amortised cost' are amounts due to Group companies £87 1 million (2012 £173 2 million) Refer to notes 19, 20 and 28

Notes to the Financial Statements

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29. Financial instruments (continued)

As at 31 May 2012	FVTPL-Held for trading £000	Loans and receivables £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
Financial assets					
Cash and cash equivalents	-	209,445	-	209,445	209,445
Trade receivables – due from brokers					
Non-exchange traded instruments	(6,244)	173,640	-	167,396	167,396
Exchange-traded instruments	(4,599)	42,131	-	37,532	37,532
Total trade receivables – due from brokers	(10,843)	215,771	-	204,928	204,928
Trade receivables – due from clients	-	624	-	624	624
Trade receivables – other amounts due from clients	-	1,308	-	1,308	1,308
	(10,843)	427,148	-	416,305	416,305
Financial liabilities					
Trade payables – due to title transfer clients	-	-	(59,852)	(59,852)	(59,852)
	-	-	(59,852)	(59,852)	(59,852)

Financial instrument valuation hierarchy

The hierarchy of the Company's financial instruments carried at fair value is as follows

As at 31 May 2013	*Level 1[1]* *£000*	*Level 2[2]* *£000*	*Level 3[3]* *£000*	*Total fair value* *£000*
Financial assets				
Financial investments	50,468	-	-	50,468
Trade receivables – due from brokers	(826)	(1,071)	-	(1,897)

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments This category includes the Company's exchange-traded open hedging positions

(2) Valued using techniques where a price is derived based significantly on observable market data For example, where an active market for an identical financial instrument to the product offered by the Company to its clients or used by the Company to hedge its market risk does not exist

(3) Valued using techniques that incorporate information other than observable market data that is significant to the overall valuation

The amounts due from brokers disclosed in the table above represents the fair value of the Company's open hedging positions The fair value of the Company's open hedging position varies significantly from the fair value of the related client positions as a result of the Company's settlement terms with its brokers whereby hedging positions are settled and re-opened on a more frequent basis than the underlying client position

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29. Financial instruments (continued)

There have been no changes in the valuation techniques for any of the Company's financial instruments held at fair value in the period During the year ended 31 May 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements

Reconciliation of the movement in Level 3 of the valuation hierarchy

	At 1 June 2012	*Gains or losses in revenue*[1]	*Closed positions*[2]	*Transfers*	*At 31 May 2013*[3]
	£000	*£000*	*£000*	*£000*	*£000*
Financial liabilities					
Trade payables – due to clients	-	11,678	(11,678)	-	-

(1) Disclosed in trading revenue in the statement of comprehensive income This represents client positions that have closed in the period as well those open at the period end

(2) Value of client positions that have settled in the period

(3) Value of open client positions at the period end disclosed in trading revenue in the statement of comprehensive income

The impact of a reasonably possible alternative valuation assumption on the valuation of trade payables – due to clients reported within Level 3 of the valuation hierarchy is not significant

Items of income, expense, gains or losses

Gains and losses arising from financial assets and liabilities classified as held for trading amounted to net gains of £191 6 million (2012 £187 4 million)

Finance revenue totalled £1 7 million (2012 £1 8 million) The entire amount represents interest income on financial assets not at fair value through profit or loss and includes interest receivable in respect of non-segregated client balances, part of which is held with brokers

Finance costs totalled £0 6 million (2012 £0 8 million) and the entire amount represents interest expense on financial liabilities not at fair value through profit or loss

30. Financial risk management

The principal activities of the Company outlined in the Directors' Report give rise to exposure to financial risks in the ordinary course of business Risk management is performed on a Group-wide basis The following risk management disclosure is made with regards to the Group

The Group's Internal Capital Adequacy Assessment Process (ICAAP) provides an on-going assessment of the risks the Group believes have the potential to have a significant detrimental impact on its financial performance and future prospects and describes how the Group mitigates these risks subject to the Group's risk appetite

The Board sets the strategy and policies for the management of these risks and delegates the management and monitoring of these risks to the Risk and Audit Committees

Financial risks arising from financial instruments are analysed into market, credit, concentration and liquidity risks, and these are discussed below

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30 Financial risk management (continued)

(i) Market risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of its holdings of financial instruments This is analysed into market price, currency and interest rate risk components

The Company's market risk is managed under the 'Market Risk Policy' on a group-wide basis and exposure to market risk at any point in time depends primarily on short-term market conditions and the levels of client activity The Company utilises market position limits for "operational efficiency" and does not take proprietary positions based on an expectation of market movements As a result not all net client exposures are hedged and the Company may have a residual net position in any of the financial markets in which it offers products up to the market risk limit

The Group's Market Risk Policy incorporates a methodology for setting market position limits, consistent with the Group's risk appetite, for each financial market in which the Group's clients can trade, as well as certain markets which the Board consider to be correlated These limits are determined with reference to the liquidity and volatility of the underlying financial product or asset class and represent the maximum long and short client exposure that the Group will hold without hedging the net client exposure

The Group's real-time market position monitoring system allows it to monitor its market exposure against these limits continuously If exposures exceed these limits, the policy requires that hedging is undertaken to bring the exposure back within the defined limit

There is a significant level of 'natural' hedging arising from the Group's global client base pursuing varying trading strategies which results in a significant portfolio hedging effect This reduces the Group's net market exposure prior to the Group hedging any residual net client exposures, as well as minimising concentration risk within the market risk portfolio

Where the Group has residual positions in markets for which it has not been possible or cost-effective to hedge, the Risk Committee determines the appropriate action and reviews these exposures regularly, subject to the risk management framework approved by the Board

Binary bets are typically difficult or not cost-effective to hedge and there is often no direct underlying market which can be utilised in setting the price which the Group quotes The Group normally undertakes no hedging for these markets, but can hedge specific positions if considered necessary The Group aims to reduce the volatility of revenue from these markets by offering a large number of different betting opportunities, the results of which should, to some extent, offset each other irrespective of the underlying market outcome The overwhelmingly short-term nature of these bets means that risk on these markets at any point in time is not considered to be significant

a) Market price risk

This is the risk that the fair value of a financial instrument fluctuates as a result of changes in market prices other than due to the effect of currency or interest rate risks

Equity market price risk

The most significant market risk faced by the Company is on equity positions including shares and indices which are highly correlated and managed on a portfolio basis The equity exposure at the year-end and details of the exposure limit at the year-end and for the year then ended is as follows

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30. Financial risk management (continued)

	2013	2012
	£000	£000
Equity exposure at year-end	16,459	16,535
Equity exposure limit at year-end	16,500	16,500
Average equity exposure limit for the year	16,500	16,500

The Group's market risk policy requires that when the exposure exceeds the exposure limit hedging is undertaken to bring the exposure back within that limit as soon as practical

The Company has no significant concentration of market risk

No sensitivity analysis is presented for equity market price risk as the impact of reasonably possible market movements on the Group's revenue and equity are not significant being below the Company's average daily revenue from financial instruments (2013 £734,130, 2012 £715,302) Changes in risk variables have no direct impact on the Company's equity as the Company has no financial instruments classified as available for sale, or designated in hedging relationships

Other market price risk

The Company also has market price risk as result of its trading activities (offering bets and contracts for difference (CFDs) on interest rate derivatives and commodities) which is hedged as part of the overall market risk management The exposure is monitored on a Group-wide basis and is hedged using exchange-traded futures and options Exposure limits are set by the Risk Committee for each product, and also for groups of products where it is considered that their price movements are likely to be positively correlated

The exposure to interest rate derivatives and commodities at the year-end are as follows

	2013	2012
	£000	£000
Interest rate derivatives	(2,492)	11,278
Commodities	(6,177)	6,717

No sensitivity analysis is presented for other market price risk as the impact of reasonably possible market movements on the Company's revenue are not significant Changes in risk variables have no direct impact on the Company's equity as the Company has no financial instruments designated in hedging relationships

b) Foreign currency risk

The Group is exposed to two sources of foreign currency risk

i) Translational foreign currency risk

Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the Group's presentation currency The functional currency of each company in the Group is that denominated by the country of incorporation The Group does not hedge translational exposures as they do not have a significant impact on the Group's capital resources

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

ii) Transactional foreign currency risk

Transactional foreign currency exposures represent financial assets or liabilities denominated in currencies other than the functional currency of the transacting entity Transaction exposures arise in the normal course of business and the management of this risk forms part of the risk policies outlined above Limits on the exposures which the Group will accept in each currency are set by the Risk Committee and the Group hedges its exposures as necessary with market counterparties Foreign currency risk is managed on a group-wide basis, while the Company's exposure to foreign currency risk is not considered by the Directors to be significant

The Group monitors transactional foreign currency risks including currency statement of financial position exposures, equity, commodity, interest and other positions denominated in foreign currencies and bets and trades on foreign currencies The Company's net exposure to foreign exchange risk based on notional amounts at each year-end was as follows

	2013	*2012*
	£000	*£000*
US Dollar	577	2,773
Euro	3,026	(8,037)
Australian Dollar	(1,799)	(5,348)
Yen	231	39
Other	(6,290)	4,046

No sensitivity analysis is presented for foreign exchange risk as the impact of reasonably possible market movements on the Company's revenue are not significant Changes in risk variables have no direct impact on the Company's equity as the Company has no financial instruments designated in hedging relationships

c) Non-trading interest rate risk

The Company also has interest rate risk relating to financial instruments not held at fair value through profit and loss These exposures are not hedged

The interest rate risk profile of the Company's financial assets and liabilities as at 31 May each year was as follows

	2013	*2012*
	£000	*£000*
Fixed rate		
Financial investments	50,468	-
Floating rate		
Cash and cash equivalents	68,969	209,445
Trade receivables	286,618	206,860
Trade payables	(65,151)	(104,754)
	340,904	311,551

All balances presented in the table above are repayable within one year

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year Trade receivables and payables include client and broker balances upon which interest is paid or received based upon market rates Cash and cash equivalents includes client money equivalent to the amount included within trade payables

Interest rate risk sensitivity analysis

A non-traded interest rate risk sensitivity analysis has been performed on net interest income on segregated client funds, based on the value of client funds held at the year-end, on the basis of a 0 25% (2012 0 25%) per annum fall and a 0 5% (2012 0 75%) rise in interest rates, at the beginning of the year, as these are considered 'reasonably possible' The impact of such a fall in interest rates would reduce net interest income on segregated client funds by approximately £2 4 million (2012 £2 0 million) per annum The impact of such a rise in interest rates would increase net interest income on segregated client funds by approximately £4 2 million (2012 £5 5 million) per annum Changes in risk variables have no direct impact on the Company's equity as the Company has no financial instruments designated in hedging relationships

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation The Company's credit risk is managed on a group-wide basis

The Company's principal sources of credit risk are financial institution and client credit risk

a) Financial institution credit risk

Financial institution credit risk is managed in accordance with the Group's 'Counterparty Credit Management Policy'

Financial institutional counterparties are subject to a credit review when a new relationship is entered into and this is updated semi-annually (or more frequently as required e g on change in the financial institution's corporate structure or a downgrading of its credit rating) Proposed maximum exposure limits for these financial institutions are then reviewed and approved by the Risk Committee

As part of its management of concentration risk, the Group is also committed to maintaining multiple brokers for each asset class Where possible, the Group negotiates for its funds to receive client money protection which can reduce credit exposure

In respect of financial institution credit risk, the following key metrics are monitored on a daily basis

- Balances held with each counterparty group, against limits approved by the Risk Committee
- Any change in short- and long-term credit rating
- Any change in credit default swap (CDS) price

The Group is responsible under various regulatory regimes for the stewardship of client monies These responsibilities are defined in the Group's Counterparty Credit Management Policy and include the appointment of and periodic review of institutions with which client money is deposited The Group's policy is that all financial institutional counterparties holding client money accounts must have minimum Standard and Poor's short- and long-term ratings of A-2 and A- respectively These are also the target minimum ratings for the Group's own bank accounts held with financial institutions, although in some operating jurisdictions where accounts are maintained to provide local banking facilities for clients it can be problematic to find a banking counterparty satisfying these minimum ratings requirements Balances held with such counterparties are therefore minimised The Group also actively manages the credit exposure to each of its broking counterparties by typically keeping the minimum required balances at each broker

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

In addition, the majority of deposits are made on an overnight or breakable term basis which enables the Group to react immediately to any downgrading of credit rating or material widening of CDS spreads, and deposits of an unbreakable nature or requiring notice are only held with a subset of counterparties which have been approved by the Risk Committee

b) Client credit risk

The Group operates a real-time mark-to-market trading platform with client profits and losses being credited and debited automatically to their account

Client credit risk principally arises when a client's total funds deposited with the Group are insufficient to cover any trading losses incurred In addition, a small number of clients are granted credit limits to cover open losses and margin requirements as described below

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 financial instrument in which the client has an open position Credit risk is mitigated in part through our client suitability criteria supported by an extensive training program which aims to educate clients in all aspects of trading and risk management and encourage them to collateralise their accounts at an appropriate level

The principal types of client credit risk exposure are managed under the Group's 'Client Credit Management Policy' and depend on the type of account and any credit offered to clients as follows

Clients subject to the Group's 'close-out monitor'

The Group's management of client credit risk is supported by a significantly automated liquidation process, the 'close-out monitor' (COM), whereby accounts which have broken the liquidation threshold are automatically identified If the margin of a client which is subject to COM liquidation process is eroded, the client is requested to deposit additional funds up to at least the required margin level and will also be restricted from increasing their market positions If subsequently, the client's intra-day losses increase such that their total equity falls below the specified liquidation level, positions will be liquidated immediately This results in significantly improved client liquidation times and reduced credit risk exposure for the Group

In addition a subset of clients has what are known as "Limited Risk" accounts For such accounts a level is set in advance (the "guaranteed stop" level) at which the deal will be closed, meaning a maximum client loss can be calculated at the opening of the trade Clients placing trades with guaranteed stop levels pay a small premium on each transaction The maximum loss is then the amount the client is required to deposit to open the trade, meaning that in most circumstances the client can never lose more than their initial margin deposit Although no longer offered to new clients, the Group still has a significant number of clients with this type of account This type of account results in the transfer of an element of market risk to the Group, which is managed under the Group's Market Risk Policy, and this type of trade is not available on all products Clients with any type of account may still choose to use guaranteed stops where available

The majority of client positions are monitored on the Group's real-time COM system or are limited risk accounts with guaranteed 'stop-losses' As at 31 May 2013, 98 83% (2012 98 92%) of financial client accounts are subject to the automatic COM procedure or are 'limited risk' accounts

Credit accounts

Clients holding other types of accounts are permitted to deal in circumstances where they may be capable of suffering losses greater than the funds they have deposited on their account, or in limited circumstances are allowed credit The Group has a formal credit policy which determines the financial and experience criteria which a client must satisfy before being given an account which exposes the Group to credit risk, including trading limits for each client and strict margining rules

The Group may offer credit limits with the result any 'open loss' can be paid subject to agreed credit terms These accounts typically only create a credit exposure when the client's loss exceeds their initial margin deposit

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

In addition to the waiver of payment of open losses on a trade, the Group may also offer clients credit in respect of their initial margin This is a permanent waiving of initial margin requirements while the limit is active on the account subject to the credit limit

Credit limits are only granted following provision by the client of evidence of their available financial resources and credit accounts limits are continuously reviewed by the Group's Credit Department Credit accounts are small in number, are not actively promoted and in general they are not made available to new clients

Risk-based tiered margins

The Group applies a tiered-margin requirement for equities and other instruments with risk-adjusted margin requirements dependent on several factors including the volatility and liquidity of the underlying instrument

This has resulted in potential margin requirement of up to 90% of the value of the notional client position for large client positions but a reduced margin requirement for smaller client positions

These tiered margins, in addition to the COM discussed earlier, contribute to the further mitigation of the Group's client counterparty credit risk exposure

Management of client collateral

Previously the Group accepted non-cash collateral from clients in the form of shares or other securities which mitigate the Group's credit risk In these circumstances, clients retained title to the securities lodged whilst their trading account was operating normally, but were required to sign a collateral agreement which would allow the Group to take title and sell the securities in the event of the client defaulting on any margin obligations During the financial year the Group ceased accepting collateral from clients

Credit risk

The following tables present further detail on the Group's and the Company's exposure to credit risk External credit ratings are available for exposures to brokers and banks, and these are shown No external credit rating of clients and certain of the Group's sport related brokers is available and therefore the balances are classified as unrated

Amounts due from clients are considered past due from the date that positions are closed and are aged from that date If debtors arise on open positions the amounts due from clients are considered neither past due nor impaired unless impairment is provided

The analysis of neither past due nor impaired credit exposures in the following table excludes retail client funds held in segregated client money accounts or money market facilities established under the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates Under these rules, client money funds held with trust status are protected in the event of the insolvency of the Group

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

The analysis of neither past due nor impaired credit exposures in the following table excludes retail client funds held in segregated client money accounts or money market facilities established under the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates Under these rules, client money funds held with trust status are protected in the event of the insolvency of the Group

	Trade receivables - due from brokers		*Trade receivables - due from clients*		*Cash and cash equivalents*		*Collateral held at fair value*	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Gross exposure	-	-	7,462	10,083	-	-	-	-
Allowance for impairment	-	-	(7,233)	(9,716)	-	-	-	-
	-	-	229	367	-	-	-	-
Past due but not impaired								
Ageing profile	-	-	-	-	-	-	-	-
0-3 months	-	-	103	126	-	-	-	-
4-6 months	-	-	0	-	-	-	-	-
7-9 months	-	-	3	-	-	-	-	-
10-12 months	-	-	0	-	-	-	-	-
> 12 months	-	-	17	-	-	-	-	-
	-	-	123	126	-	-	-	-
Neither past due nor impaired								
Credit rating								
AA+ & above	-	-	-	-	-		-	1,152
AA to AA-	61,104	54,839	-	-	5,182	103	-	-
A+ to A-	219,402	149,180	-	-	63,588	208,912	-	563
BBB+ to BBB-	-	-	-	-	19	121	-	885
BB+ to B	-	-	-	-	1	220	-	-
CCC	-	-	-	-	-	16	-	-
Unrated	1,477	909	171	131	179	73	-	1,264
	281,983	204,928	171	131	68,969	209,445	-	3,864
Total carrying amount	281,983	204,928	523	624	68,969	209,445	-	3,864

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

Prepayments and other receivables are all unrated (2012 all unrated)

Impairment of trade receivables due from clients

The Company records specific impairments of trade receivables due from clients in a separate allowance account Impairments are recorded where the Group determines that it is probable that it will be unable to collect all amounts owing according to the contractual terms of the agreement There are no collective impairments taken, and no other assets are considered impaired Below is a reconciliation of changes in the separate allowance account during the period

	2013	*2012*
	£000	*£000*
Balance at beginning of year	9,716	9,961
Impairment loss for the year		
- charge/ (credit) for the year	778	1,635
- recoveries	(361)	(576)
Foreign exchange	1,186	(637)
Write-offs	(4,086)	(667)
Balance at end of year	7,233	9,716

(iii) Concentration risk

Concentration risk is defined as all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of the Group In respect of financial risk, such exposures may be caused by credit risk, market risk liquidity or a combination or interaction of those risks

The following table analyses the Group's credit exposures, at their carrying amounts, by geographical region and excludes retail client funds held in segregated client money accounts or money market facilities established under the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

Analysis of credit exposures at carrying amount by geographical segment

	UK	*Europe*	*Australia*	*Rest of World*	*Total*
As at 31 May 2013	*£000*	*£000*	*£000*	*£000*	*£000*
Financial assets					
Cash and cash equivalents	60,594	2,521	5,182	672	68,969
Financial investments	50,468	-	-	-	50,468
Trade receivables – due from brokers	96,244	80,092	53,029	52,618	281,983
Trade receivables – due from clients	77	156	78	212	523
Total financial assets	207,383	82,769	58,289	53,502	401,943

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

	UK	Europe	Australia	Rest of World	Total
As at 31 May 2012	*£000*	*£000*	*£000*	*£000*	*£000*
Financial assets					
Cash and cash equivalents	157,642	51,713	76	14	209,445
Trade receivables – due from brokers	71,163	71,306	20,741	41,718	204,928
Trade receivables – due from clients	263	141	111	109	624
Total financial assets	229,068	123,160	20,928	41,841	414,997

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or other financial assets

Management of liquidity risk

Liquidity risk is managed centrally and on a group-wide basis The Group's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its broker margin requirements and other financial liabilities when due, under both normal circumstances and stressed conditions The Group has carried out an Individual Liquidity Adequacy Assessment ("ILAA") during the year, and whilst this applies specifically to the Group's FCA regulated entities, it provides the context in which liquidity is managed on a continuous basis for the whole Group

The Group does not have any material liquidity mismatches with regard to liquidity maturity profiles due to the very short-term nature of its financial assets and liabilities Liquidity risk can, however, arise as all individual client funds are required to be placed in segregated client money accounts or money market facilities (as previously discussed) A result of this policy is that short-term liquidity 'gaps' can potentially arise in periods of very high client activity or significant increases or falls in global financial market levels

During periods of significant market falls the Group will be required to fund margin payments to brokers prior to the release of funds from segregation, and in periods of significant market increases or increased client activity, the Group will be required to fund higher margin requirements at brokers to hedge increased underlying client positions These additional requirements are funded from the Group's own available cash resources while these individual client positions are open, as individual client funds remain in segregated client money bank accounts

In order to mitigate this and other liquidity risks, the Group regularly stress tests its three-year liquidity forecast to validate the correct level of committed unsecured bank facilities held At the year-end, these amounted to £180 0 million (2012 £180 0 million) These facilities were drawn to a maximum of £25 0 million for a period of 22 days in April 2013 where the broker margin requirement reached a maximum level of £294 7 million and the Group held a liquid assets buffer of £50 5 million Other than for testing purposes these facilities were not drawn upon during the prior financial year On 19 July 2013 the Group completed the renegotiation of the liquidity facilities with a syndicate of three banks In doing so the Group has increased the size of the overall facility to £200 0 million (2012 £180 0 million) and established a longer term liquidity funding arrangement Of the total facility £120 0 million is available for a period of one year and £80 0 million is available for three years respectively from the facility signing date

'Liquid assets' and 'own funds' are the key measures the Group uses to monitor the overall level of liquid assets available to the Group The derivation of both liquid assets and own funds is shown in the following table

Notes to the Financial Statements

at 31 May 2013

30. Financial risk management (continued)

	2013	2012
	£000	£000
Own cash and title transfer funds(1)	98,345	228,156
Amounts due from brokers(2)	283,940	206,997
Financial investments – liquid assets buffer(3)	50,468	-
Other amounts due to the Group(4)	15,003	12,920
Liquid assets	**447,756**	**448,073**
Analysed as		
Own funds	429,291	388,221
Title transfer funds	18,465	59,852

The following notes have been provided in order to further explain the derivation of liquid assets and own funds of the Group

(1) Own cash and title transfer funds represent cash held on demand with financial institutions

(2) Amounts due from brokers represent balances with brokers where the combination of cash held on account and the valuation of financial derivative open positions results in an amount due to the Group These positions are held to hedge client market exposures in accordance with the Group's market risk management

(3) Financial investments represent UK Government Treasury Bills and Gilts held in accordance with the BIPRU 12 liquidity standards and the Group's regulatory oversight by the FCA This is the Group's liquid assets buffer

(4) Other amounts due to the Group include balances that will be transferred to the Group's own cash from segregated client funds on the following working day in accordance with the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates At 31 May 2013 this also includes amounts due from banking counterparties or held within segregated client funds in relation to monies transferred by clients to the Group that remain unsettled at the year-end The Group is required to segregate these client funds at the point of client funding and not at cash settlement

In the Directors' opinion the Company has sufficient liquid funds available to meet all operational requirements in the event of a large market movement Liquidity management is also dependent on credit risk management previously described

Liquidity requirements

The Group requires liquidity for each of, the full segregation of client monies, the funding of regulatory and working capital in overseas businesses, the funding of margin requirements at brokers to hedge the underlying client positions under both normal and stressed conditions, the funding of a liquid assets buffer, and amounts associated with general working capital

The available liquid assets measure excludes cash amounts tied up in both the requirement to segregate client funds and in regulatory and working capital of overseas businesses as they are not considered to be available for the purposes of central market risk management

Notes to the Financial Statements

at 31 May 2013

31 Capital management and resources

Capital management

The Group is supervised on a consolidated basis by the UK's Financial Conduct Authority (FCA) The Group's subsidiaries in Australia, Japan, Singapore, South Africa and the United States, are also regulated Individual capital requirements in these jurisdictions are taken into account when managing the Group's capital resources

The Group's regulatory capital resources management objective is to ensure that the Group complies with the regulatory capital resources requirement set by the FCA and other global regulators in jurisdictions in which the Group's entities operate

The Group's capital management policy aims to maximise returns on equity while maintaining a strong capital position to enable the Group to take advantage of growth opportunities, whether organic or by acquisition The Group does not seek to generate higher returns on equity by introducing leverage through, for example, the use of long-term debt finance

The Group's Internal Capital Adequacy Assessment Process (ICAAP) provides an on-going assessment of the risks the Group believes have the potential to have a significant detrimental impact on its financial performance and future prospects and describes how the Group mitigates these risks subject to the Group's risk appetite

The Group's 'Pillar 3 Disclosures' are published on its website www iggroup com and these provide additional information on the Group's enterprise-wide risk management framework and its management of regulatory capital on a consolidated and solo entity basis

Capital resources

The Group had significant surplus regulatory capital resources over the regulatory capital resources requirement throughout the year An analysis of the Company's capital resources and capital resources requirement is provided in the Directors' statutory report

32. Subsequent events

Subsequent to the year-end, in accordance with the phased transfer agreed with the FCA for the Group to hold a liquid assets buffer of up to £100 0 million by August 2013, the Company has purchased £32 3 million of additional BIPRU qualifying assets Following this purchase the Company now holds £83 1 million of BIPRU qualifying assets within the liquid assets buffer

Further, on 19 July 2013 the Company and IG Index (a fellow group subsidiary) completed the renegotiation of the liquidity facilities with a syndicate of three banks In doing so the Company and its fellow subsidiary has increased the size of the overall facility to £200 0 million and established a longer term liquidity funding arrangement Of the total facility £120 0 million is available for a period of one year and £80 0 million is available for three years respectively from the facility signing date

33. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Market Data Limited

The ultimate parent undertaking and controlling party is IG Group Holdings plc, a company incorporated in the United Kingdom

IG Group Holdings plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 May 2013 The consolidated financial statements of IG Group Holdings plc are available from Cannon Bridge House, 25 Dowgate Hill, London EC4R 2YA