Pillar 3 Disclosures

2018


EUR/USD
1d
5.2%
13.0%

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1. Overview

1.1 Introduction

The Pillar 3 disclosure is prepared in accordance with the EU's Capital Requirements Directive (CRD) as implemented by the Financial Conduct Authority ("FCA").

The purpose of the Pillar 3 disclosure is to encourage the stability of the financial markets by allowing market participants to assess key information on firms' capital adequacy and risk and control processes.

The three Pillars aim to implement a more risk sensitive framework for the calculation of regulatory capital:

- **Pillar 1:** Sets eligible capital resources of the firm and calculations of minimum levels of Own Funds Requirement ("OFR");
- **Pillar 2:** Ensures that a firm has sufficient capital to support the risks not fully captured by the minimum capital requirements, in accordance with the firm's internal models and assessment;
- **Pillar 3:** Covers external communication of the firm's regulatory capital and risk exposures and is designed to increase transparency and confidence about the firm's exposure to risk and the overall adequacy of its regulatory capital.

The FCA's rules for implementing Pillar 3 as set out in the EU Capital Requirements Directive ("CRD") are contained in Articles 431 - 455 of the Capital Requirements Regulation ("CRR") (Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (EU) No 575/2013 and amending Regulation (EU) No 648/2012). Disclosures are made where the regulations apply to the Group and where the information is not deemed confidential or proprietary by the CMC Markets plc Board (the "Board").

Quantitative disclosures are made as at 31 March 2018.

1.2 Frequency and scope of disclosures

The disclosures in this document are made in respect of CMC Markets plc (the "Group") which provides financial spread betting and CFD trading products. The Group also has a stockbroking offering in Australia.

The Pillar 3 disclosures will be published on at least an annual basis on the Group's website (www.cmcmarkets.com/group) as a supplement to the CMC Markets plc 2018 annual report and financial statements, in accordance with Article 433 of the CRR. The FCA's BIPRU 11.4.4R regarding frequency of publication has been reviewed and it has been assessed that Pillar 3 disclosures are not required to be published more frequently than annually.

CMC Markets plc became the ultimate holding company of the Group under a reorganisation in 2006, and is a UK Consolidated Group, subject to consolidated supervision by the FCA. The Group structure and a list of prudentially regulated entities are shown in Chart 1 and Table 1 on page 5 and 6.

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between CMC Markets plc and it's subsidiary undertakings except to the extent these items are required to meet the regulatory capital requirements of subsidiary undertakings.

Inter-group transferability of capital is subject to an annual review as part of the Internal Capital Adequacy Assessment Process (ICAAP).

Chart 1: Group structure as at 31 March 2018

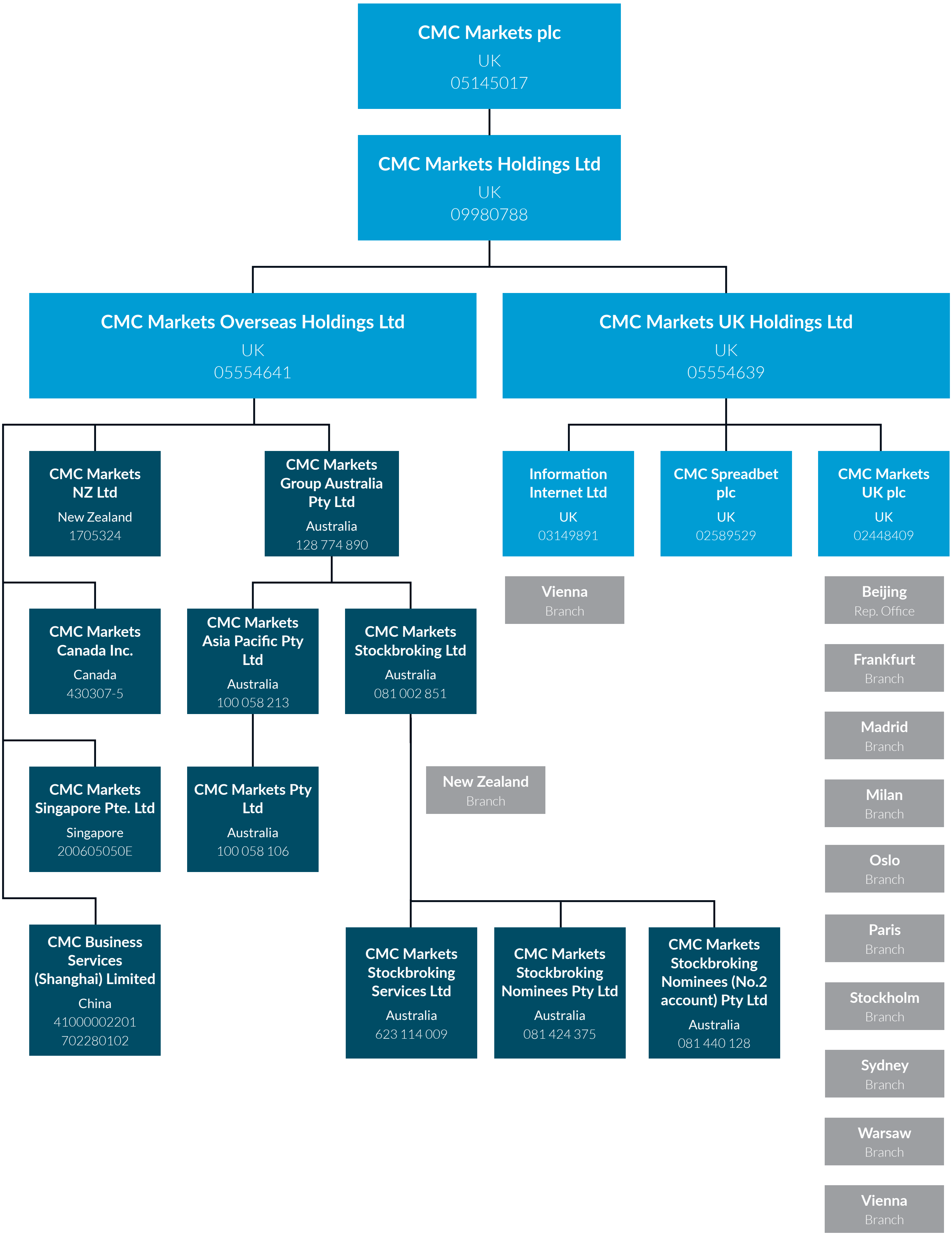


Table 1: Regulated entities and regulator(s)

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

2. Risk management objectives and policies

2.1 Corporate governance structure

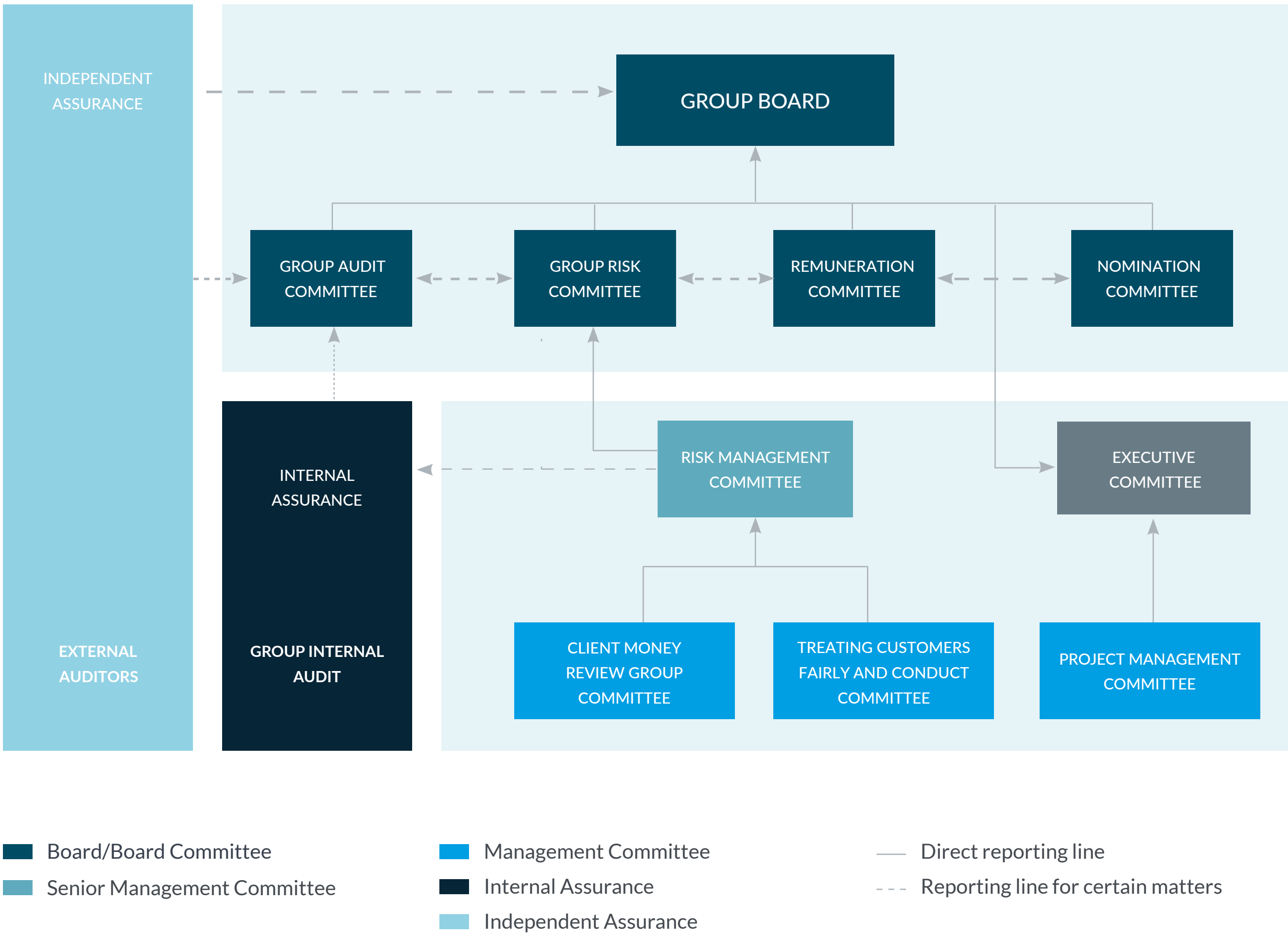
The Directors and senior management of CMC Markets are fully aware of the benefits of robust and effective corporate governance. Apart from the evident advantages that clarity and accountability bring to management, the value it adds to commercial activities is acknowledged.

The Board has put in place a governance structure which it believes is appropriate to the operations of an online retail financial services group and is aligned to the delivery of the Group's strategic objectives. The governance structure is regularly reviewed and monitored and any changes are subject to Board approval and amended as required to ensure its regulatory responsibilities and the needs of the Group's businesses are fulfilled.

The objectives of the corporate governance structure are:

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

Chart 2: Corporate governance structure



Note – Group Internal Audit is outsourced to Grant Thornton UK LLP. External Audit conducted by PriceWaterhouseCoopers LLP.

Board of Directors

The Group Board has overall responsibility for the Group's affairs. The composition of the Board complies with principle B.1 of the UK Corporate Governance Code with at least half of the Board, excluding the Chairman, being independent Non-Executive Directors. The Board comprises of the Chairman, three Executive Directors and three independent Non-Executive Directors. The calibre of all the Non-Executive Directors is regarded as more than capable of carrying sufficient weight in the Board's decision-making and to challenge the executive. The Directors believe that the Board has a balance of skills, experience and knowledge to provide effective strategic leadership and proper governance of the Company and Group as a whole. The Articles of Association of the Company require all Directors to retire by rotation.

The Board is responsible for the management and oversight of the Group, setting strategic targets and determining policy. Any changes to the roles of the Directors during the year and since the year end are set out in the Directors' Report on pages 83 to 88 of the CMC Markets plc 2018 annual report and financial statements. The roles of the Chairman and the CEO are separate, defined in writing writing (as set out in the Directors' Report on page 53 of the CMC Markets plc 2018 annual report and financial statements) and have been approved by the Board. The effectiveness of the Board is the responsibility of the Non-Executive Chairman. Supported by the Executive Directors and senior management, the CEO is responsible for the implementation and execution of the Board approved strategy and policy. The CEO manages the Group's operations on a day-to-day basis and is in frequent contact with the Executive Directors and senior management in addition to attending formal Board meetings. Key performance indicators are included in the performance evaluation process for the CEO, Executive Directors and senior management and are used by the Remuneration Committee in determining their remuneration.

It is recognised that certain matters cannot, or should not, be delegated and as such the Board has adopted a schedule of matters reserved for Board consideration and approval which are published on the Group website at www.cmcmarketsplc.com/group.

Board Committees

Board Committees are considered independent to management and are made up of independent Non-Executive Directors. The CEO, Chief Operating and Financial Officer, Group Commercial Director , Group Head of Finance, Lead External Audit Partner and Internal Audit Manager attend Group Audit Committee ("GAC") meetings by invitation and the CEO, Chief Operating and Financial Officer, Group Commercial Director, Group Head of Risk and the Head of Compliance - UK & Europe, attend Group Risk Committee ("GRC") meetings by invitation.

The GAC and the GRC's Terms of Reference were approved by the Board on 25 January 2016 and 1 December 2016 respectively and are available on the Group's website www.cmcmarkets.com/group/committees

Group Audit Committee

The main role and responsibilities of the GAC are:

- to monitor the integrity of the financial statements of the Group;
- to review and report to the Board on significant financial reporting issues and judgements;
- the assessment of the adequacy and effectiveness of the Company's internal control systems and report to the Board on any key findings;
- the review and approval of the internal audit charter and internal audit annual plan;
- to review the findings of all internal audit reports, make recommendations as appropriate and monitor resolution plans;
- to review and make recommendations to the Board on the effectiveness and independence of the Company's external auditor including appointment, re-appointment and removal of the external auditor;
- to review the findings of the external auditors; and
- to ensure that the external audit contract is put out to tender at least once every 10 years.

Group Risk Committee

The main role and responsibilities of the GRC are:

- oversight of the Group's risk appetite and tolerance;
- the review and recommendation of the Risk Appetite Statement and Risk Management Framework;
- the provision of advice and recommendations to the Board to assist in Board decision making in relation to risk appetite and risk management;
- the oversight of financial and liquidity risks including the responsibilities of the risk management function;
- the review of the ICAAP and ILAA frameworks;
- the oversight of, and making recommendations to the Board on, current risk exposures and future risks; and
- to review and make recommendations on embedding risk management in director and senior management's remuneration.

Nomination Committee

The Nomination Committee ("NomCo") consists of Non-Executive Directors and focuses on the effectiveness and structure of the Board and its committees, succession planning, director induction and on-going director training. The NomCo Terms of Reference were approved by the Board on 25 January 2016 and are available on the Group's website at www.cmcmarkets.com/group/committees

The main roles and responsibilities of the NomCo, including those in relation to risk management are described in the CMC Markets plc 2018 annual report and financial statements which are published on the Group website at www.cmcmarkets.com/group

Remuneration Committee

The Remuneration Committee ("RemCo") consists of Non-Executive Directors and focuses on Director and senior management remuneration, incentives, retention and Group remuneration matters as required. The RemCo Terms of Reference were approved by the Board on 25 January 2016[1] and are available on the Company's website www.cmcmarkets.com/group/committees

The main roles and responsibilities of the RemCo, including those in relation to risk management are described in the CMC Markets plc 2018 annual report and financial statements.

Senior management committees

The corporate governance structure also includes Management committees, namely the Executive Committee ("Exco") and the Risk Management Committee ("RMC"), which together provide a framework to support and monitor the management of the Group.

Exco meetings are held 10 times a year and attended by the Executive Directors and senior managers from key functions across the business. The Exco meetings are chaired by the CEO and provide a forum to assist the CEO to achieve the strategic objectives of the Group as approved by the Board. The meetings allow discussion between the Executive Directors and senior management on business developments, key projects, regulatory changes and matters arsing which may impact the delivery of the Group's strategic objectives.

The RMC monitors the key risk areas of the business including financial risk, compliance, financial crime, and liquidity risk. The RMC is chaired by the CFO & Head of Risk with senior management and specialists attending for their respective areas of expertise.

Management committees

The Client Money Review Group ("CMRG"), which reports into the RMC, is a fundamental part of the Group's client money governance and oversight procedures. The CMRG is chaired by the CF10a, an FCA-approved person, who is responsible for overseeing the controls and procedures in place to protect client money. The committee is comprised of senior management from across the Group who oversee functions which impact client money. The CMRG forms a key part of the oversight of client money in addition to Compliance, internal audit and PwC as external auditors.

[1] The Board approved the adoption of revised Remuneration Committee Terms of Reference on 25 July 2018

The Treating Customers Fairly ("TCF") Committee reports into the RMC. The committee is chaired by the "TCF Champion", a member of the Exco. The committee is comprised of senior management and subject matter experts and meets regularly to review the TCF Management Information and any emerging issues or incidents which could impact on issues of client fairness. It also reports to the Board via the RMC on TCF matters and reviews and recommends approval of the TCF Policy.

Each of the management committees outlined above has terms of reference approved by the RMC. There are 10 formally scheduled meetings annually and ad-hoc meetings are scheduled should a particular matter require immediate consideration.

Risk and Control Functions

Risk and Control functions provide additional assurance to Board and Exco by compiling periodic reports for the appropriate committees and the Board to review.

- Finance is responsible for maintaining accurate financial books and records of the Group through the application of adequate processes and controls. Its responsibilities also include adherence to local regulations, including compliance with client money rules, and regulatory and tax submissions where required. Finance also works with the wider business to recommend performance targets and monitor actual performance against these targets.

- The Financial Risk Management (FRM) function is responsible for identifying, monitoring and reporting Market and Counterparty Risk for the Group. This includes calculating of Pillar 1 capital requirements, as well as running various stress scenarios to calculate any potential Pillar 2 regulatory capital requirements. FRM is also responsible for recommending margins for the product offering, as well as monitoring and reporting adherence to board approved appetite through various KRIs.

- The Operational Risk Management function is responsible for providing assurance on the level of risk within the Group and the effectiveness of the controls put in place by the business. This includes developing and undertaking robust monitoring activity as well as responsibility for oversight and governance of Information Security, Business Continuity and Data Protection.

- The Legal function is responsible for all legal advice given to the business, with the exception of employment matters, whether this is advice given internally or from external legal counsel. It manages and advises upon the legal risks facing the business.

- The Compliance function is responsible for regulatory risk policy and requirements, including assessment of all business procedures and controls to ensure regulatory rules are followed. This includes developing and undertaking robust compliance monitoring activity and on-going liaison with various regulators.

- The Financial Crime function is responsible for formulating and advising on financial crime policy and requirements, including assessment of all business procedures and controls to ensure regulatory rules and industry best practice are followed.

Business Functions

In addition to the control functions, risk management is a key consideration throughout the Group. Each function designs, implements and monitors suitable risk mitigation controls so that risks remain within Board-approved risk appetite limits. The Group Risk Management Framework covers risk across the business.

2.2 Risk appetite statement

As set out in the Strategic Report on pages 18 to 19 of the CMC Markets plc 2018 annual report and financial statements the Group's strategic goals and objectives are:

- Increase the client base in established markets;
- Expand into new markets and grow developing regions;
- Maintain a strong product offering;
- Implement digital solutions to improve efficiencies across the client journey; and
- Establish the business as a key player in the institutional sector.

The purpose of the Risk Appetite Statement (RAS) is to articulate the aggregate level and types of risk that the Board is willing to take (its "risk appetite") in order to achieve its strategic objectives.

Alongside risk appetite parameters, the Board has put a number of KRIs in place to monitor the movement of risk levels over an appropriate time horizon. They are designed to alert the Board and senior management that a risk is approaching, or has exceeded, appetite so that appropriate mitigation measures can be implemented.

Risks to CMC Markets

The Group defines and categorises its principal risks into three areas:

- Business and strategic risks;
- Financial risks; and
- Operational risks.

The principal risks comprise of key risks the Group faces, including:

- Credit risk;
- Liquidity risk;
- Market risk;
- Business change risk;
- Business continuity and disaster recovery risk;
- Financial crime risk;
- Information and data security risk;
- Information technology and infrastructure risk;
- Legal (commercial / litigation) risk;
- Operations (processing) risk;
- Outsourcing and procurement risk;
- People risk; and
- Regulatory and compliance risk.

Further information is available on pages 38 to 45 and note 28 (pages 132 to 140) of the CMC Markets plc 2018 annual report and financial statements and in section 4 of this document.

3. Capital resources

Table 2: Regulatory Capital

£m	31 March 2018	31 March 2017
Shareholders' equity as per audited financial statements	220.0	195.7
Less; foreseeable dividends	(17.2)	(17.1)
Less: Intangible assets	(4.4)	(2.1)
Less: deferred tax assets that rely on future profitability	(4.2)	(4.6)
Common Equity Tier 1 Capital	**194.2**	**171.9**
Tier 2 capital	-	-
Total Regulatory Capital/Own Funds	**194.2**	**171.9**
Total Risk Exposure		
Operational risk capital requirement (ORCR)	321.6	294.6
Market risk capital requirement (MRCR)	149.5	140.3
Credit risk capital component (CRCC)	128.6	92.6
Counterparty risk capital requirement (CRCR)	27.5	41.9
Total Risk Exposure	**627.2**	**569.4**
CET1 Capital ratio (regulatory minimum: 4.5%)	**31.0%**	**30.2%**
Surplus(+)/Deficit(-) of CET1 capital	166.0	146.3
T1 Capital ratio (regulatory minimum: 6.0%)	**31.0%**	**30.2%**
Surplus(+)/Deficit(-) of T1 capital	156.6	137.7
Total capital ratio (regulatory minimum: 8.0%)	**31.0%**	**30.2%**
Surplus(+)/Deficit(-) of total capital	144.0	126.3

CMC Markets has adopted the standardised approach for credit risk (CRCC) (CRR, Articles 111-141), mark-to-market method for counterparty risk (CRCR) (CRR, Article 274) and the basic indicator approach for operational risk (ORCR) (CRR, Article 315). These requirements are added to the Market Risk Capital Requirement (MRCR) (CRR, Articles 325-377) in order to calculate the Basel III Pillar 1 minimum capital requirement under the CRD.

3.1 Capital management

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

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

Further information is available on page 140 of the CMC Markets plc 2018 annual report and financial statements.

3.2 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital comprises share capital less own shares held in trust, other audited reserves and retained earnings. The Group has no 'innovative Tier 1' instruments.

A deduction is made from Common Equity Tier 1 capital in respect of intangible assets and deferred tax assets. Intangible assets comprise principally of software licences and development costs.

3.3 Tier 2 Capital

The Group does not have Tier 2 Capital.

3.4 Internal Capital Adequacy Assessment Process (ICAAP)

The Group undertakes an internal assessment of capital requirements via the ICAAP review document at least annually.

The soundness, effectiveness and comprehensiveness of the ICAAP are challenged and approved by the Board. The ICAAP is the process of identification, measurement, management and monitoring of the adequacy and allocation of internal capital. Based on this the Group determines the Pillar 2 requirement, which presents the Group's view of the additional amount of capital it should hold against risks not fully covered by the Pillar 1 requirements over a three year planning horizon.

The on-going review of the ICAAP throughout the year is delegated to the RMC which ensures that it is updated with regard to all identified risk and is embedded in the risk management process of the Group.

The ICAAP is reviewed by the FCA, who set the Individual Capital Guidance (ICG) capital requirements for the Group as part of its Supervisory Review and Evaluation Process (SREP). The ICG gives guidance on the amount and quality of capital resources that the FCA believes the firm should hold under the overall financial adequacy rule. In accordance with FCA's rules, a public disclosure of the ICG is not undertaken.

3.5 Leverage ratio

The Basel III framework published by the Basel Committee has a minimum leverage ratio requirement of 3%, which is defined as the ratio of Tier 1 capital to total exposures.

Table 3 below provides the Group's leverage ratio and a reconciliation of the total exposure measure with the published financial statements.

Table 3: Leverage ratio

£m	31 March 2018	31 March 2017
Total audited assets	331.7	254.8
Derivatives: Market value	4.1	1.9
Derivatives: Add-on Mark-to-Market Method	145.1	154.1
Exclusion of items already deducted from Tier 1 capital	(8.6)	(11.0)
Exposure measure after regulatory adjustments	**472.3**	**399.8**
Tier 1 capital	194.2	171.9
Leverage ratio	41.1%	43.0%

4. Principal risks

The Group's principal risks in view of its key business objectives are outlined in this section. These risks are subject to stress testing as part of the ongoing ICAAP.

4.1 Credit risk

Credit risk is the risk of financial loss that the counterparty to a transaction may cause the Group by failing to discharge a contractual obligation. Below are the channels of credit risk the Group is exposed through:

- Credit institution ;
- Client (retail); and
- Other items*.

*Other items include tangible fixed assets, deferred tax assets that rely on future profitability and arise from temporary differences, and trade and other receivables not related to clients.

Credit institution credit risk

Credit institution credit risk is the risk of a credit institution failing to meet or defaulting on their obligations in accordance with agreed terms.

Risk management is carried out by a central Liquidity Risk Management (LRM) team.

To mitigation the risk of credit loss, the Group:

- Monitors concentration levels to counterparties and reporting these internally/externally on a monthly/ quarterly basis in accordance with Group Counterparty Concentration Policy;
- Monitors the credit ratings and Credit Default Swap (CDS) spreads of counterparties and reporting internally on a weekly basis; and
- Assesses credit institution counterparties against specific criteria in accordance with the Counterparty Selection Policy.

Counterparty credit risk is also calculated on open positions held with our brokers and measured under the CCR Mark to Market method as per CRR, Article 274.

For more information see note 28 (pages 132 to 140) of the CMC Markets plc 2018 annual report and financial statements.

Client (retail) credit risk

Client (retail) credit risk is the risk of a client failing to meet or defaulting on their obligations in accordance with agreed terms.

The Group's management of client credit risk is significantly aided by automatic liquidation functionality where margin levels are constantly reviewed and if they fall below pre agreed levels the positions held on the account will automatically be closed out.

Other platform functionality further mitigates risk:

- Tiered margin requires clients to hold more collateral against bigger or higher risk positions;
- Mobile phone access allowing clients to manage their positions on the move; and

- Guaranteed Stop Loss Orders allowing a client to remove their chance of debt from their position(s).

However, after mitigations, there is a risk that the Group could incur losses relating to clients moving into debit balances if there is a market gap.

Further information is available in note 28 (pages 132 to 140) of CMC Markets plc 2018 annual report and financial statements.

Credit exposures

The following table provides a reconciliation of accounting and regulatory exposures amounts

Table 4: Reconciliation of accounting balance sheet to regulatory balance sheet

31 March 2018 (£m)	Accounting balance sheet per published financial statements	Balance sheet per regulatory scope of consolidation	Regulatory adjustments		Credit exposure	Risk weighted exposure
			Netting	Capital deduction		
Intangible assets	4.4	4.4	-	(4.4)	-	-
Property, plant and equipment	20.7	20.7	-	-	20.7	20.7
Deferred tax assets	8.8	8.8	-	(4.2)	4.6	11.3
Financial investments	10.8	10.8		-	10.8	-
Trade and other receivables	2.2	2.2		-	2.2	2.2
Total non-current assets	**46.9**	**46.9**	**-**	**(8.6)**	**38.3**	**34.2**
Trade and other receivables	48.0	48.0	-	-	48.0	48.0
Derivative Financial instruments	7.3	7.3	-	-	7.3	1.5
Financial investments	10.3	10.3	-	-	10.3	-
Amount due from brokers	156.9	156.9	-	-	156.9	32.8
Cash and cash equivalents	60.5	60.5	-	-	60.5	12.1
Total current assets	**283.0**	**283.0**	**-**	**-**	**283.0**	**94.4**
Total assets	**328.9**	**328.9**	**-**	**(8.6)**	**321.3**	**128.6**

The following tables are analyses of the Group's credit risk exposure as at 31 March 2018.

Table 5: Credit Exposures by Regulatory Asset Class (CRCC)

Regulatory exposure asset class 31 March 2018 (£m)	Credit exposure	Risk weighted exposure
Central government	21.2	-
Institutions	224.7	46.4
Retail	23.9	23.9
Other items	51.5	58.3
	321.3	**128.6**

The following tables provide further breakdown by geographic region and counterparty type.

Table 6: Credit Exposures – analysis by geography

Regulatory exposure asset class 31 March 2018 (£m)	UK & IR	Europe	APAC & Canada	Total
Central government	21.2	-	-	21.2
Institutions	194.1	0.6	30.0	224.7
Retail	4.5	-	19.4	23.9
Other items	35.1	1.7	14.7	51.5
	254.9	**2.3**	**64.1**	**321.3**

Table 7: Credit exposures – analysis by maturity

Regulatory exposure asset class 31 March 2018 (£m)	< 3 months	3 Months to 1 year	1 to 5 years	> 5 years or Undated	Total
Central government	-	10.4	10.8	-	21.2
Institutions	224.7	-	-	-	224.7
Retail	23.9	-	-	-	23.9
Other items	0.3	14.2	0.9	36.1	51.5
	248.9	**24.6**	**11.7**	**36.1**	**321.3**

Past due amounts and impairment

The Group records impairments of trade receivables from clients in a separate allowance account. Impairments are recorded where the Group determines that it is reasonably certain that receivables are irrecoverable according to the contractual terms of the agreement. Amounts due from clients are considered to be past due from the date that positions are closed. The amounts past due but not impaired are not analysed by due date as they are not considered material exposures. All client trade receivables are determined on a specific basis.

Table 8: Credit exposures – analysis of impaired, specific and general credit risk adjustments

Regulatory exposure asset class 31 March 2018 (£m)	Impaired	Specific and general credit risk adjustments	Charges for specific and general credit risk adjustments during the financial year
Central government	-	-	-
Institutions	-	-	-
Retail	3.6	(3.0)	(0.3)
Other items	-	-	-
	3.6	**(3.0)**	**(0.3)**

Table 9: Credit exposures – geographic analysis of impaired, specific and general credit risk adjustments

31 March 2018 (£m)	UK & IR	Europe	APAC & Canada	Total
Impaired Items	2.9	0.3	0.4	3.6
Specific and general credit risk adjustments	(2.3)	(0.3)	(0.4)	(3.0)
	0.6	**-**	**-**	**0.6**

Table 10: Specific and General Credit Risk Adjustments

£m	31 March 2018
At 1 April 2017	3.5
Charge for specific and general credit risk adjustments during the financial year	0.3
Amounts written off	(0.8)
At 31 March 2018	**3.0**

CMC uses recognised External Credit Assessment Institutions ("ECAIs") Moody's, Standard & Poor's (S&P) and Fitch ratings to determine the risk weight to be applied to rated credit institution exposures.

Table 11: Institution credit exposure – credit quality steps and risk weighting

Credit quality step	Long-term credit rating	Risk weight	Exposure (£m)
1	AAA to AA-	20%	23.0
2	A+ to A-	20%	122.7
3	BBB to BBB-	20%	72.4
4	BB+ to BB-	50%	-
5	B+ to B-	50%	-
6	CCC+ and below	150%	-
Unrated	-	100%	2.7
			220.8

4.2 Liquidity risk

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

The Group has access to own funds, title transfer client funds and committed banking facilities, as described on pages 37 and note 28 (pages 132 to 140) of the CMC Markets plc 2018 annual report and financial statements.

Retail client money is held by the Group in trust for its clients. Retail client money is not used in the Group's business and is therefore not included in surplus total available liquidity.

Liquidity risk management is carried out by a central LRM team under policies approved by the Board and in line with the FCA's Individual Liquidity Adequacy Standards (ILAS) regime. The Group utilises a combination of liquidity forecasting and stress testing to identify any potential liquidity risk both during normal and stressed conditions. The forecasting and stress testing fully incorporates the impact of all liquidity regulations in force in each jurisdiction and other impediments to the free movement of liquidity around the Group.

Risk is mitigated by:

- The provision of daily, weekly and monthly liquidity reporting and real-time broker margin requirements to enable robust management and control of liquidity resources;
- A £65million committed bank facility to meet short-term liquidity obligations to prime brokers; and
- A formal, Board-approved Contingency Funding Plan ("CFP") is in place that is designed to aid senior management to assess and prioritise actions in a liquidity stress scenario.

Liquidity risk management is discussed fully in the Group's Board-approved ILAA as well as being a standing item in the Terms of Reference at the RMC meetings.

For more information see note 28 (pages 132 to 140) of the CMC Markets plc 2018 annual report and financial statements.

Core liquidity risks

Liquidity risks may arise in the following core areas:

Increase in broker margin requirements

Increases in broker margin requirements result primarily from greater hedging following changes to client exposures and secondly, to a far lesser extent, brokers choosing to increase their requirements. The risk of the latter is mitigated by the Group's Hedge Counterparty Selection Policy dictating a minimum of two counterparty relationships be in place for each asset class to provide operational flexibility and diversification.

Counterparty failure

Exposure to this risk is managed by monitoring the creditworthiness and exposure concentration of the Group's counterparties, as governed by the Group's Counterparty Concentration Risk Policy.

Withdrawal of committed funding facility

Credit institutions may not renew committed facilities on commercial grounds. The Group's existing committed facility agreement does not include any provisions which allow the lender to terminate the contract without cause, other than default or breach of covenant.

Asset encumbrance

The tables below disclose the Group's encumbered and unencumbered assets as at 31 March 2018 based on guidance from the European Banking Authority.

Table 12: Asset encumbrance

(£m)	Carrying amount of encumbered assets	Carrying amount of unencumbered assets
Loans on demand	112.2	127.6
Debt securities : issued by general governments	-	21.2
Other assets	19.3	49.6
	131.5	**198.4**

4.3 Market risk

Market risk is defined as the risk that the value of our residual portfolio will decrease due to the change in market risk factors. The three standard market risk factors are price moves, interest rates and foreign exchange rates. Further information can be found on pages 132 to 140 of the CMC Markets plc 2018 annual report and financial statements.

Market risk positions are managed in accordance with the Group's Risk Appetite Statement and Group Market Risk Management Framework to ensure that the Group has sufficient capital resources to support the calculated Market Risk Capital Requirement as well as staying within the Board approved Risk Appetite.

Overall client exposures can vary significantly over a short period of time and are highly dependent on underlying market conditions. The Group's Own Funds Requirement ("OFR") has increased against the prior year end but remains well within the Board-approved risk appetite.

The Group monitors its Market Risk exposures on a real-time basis to ensure adherence to Board-approved appetite and follows the FCA rules under IFPRU 6.1 for calculating its Market Risk Capital Requirements, as illustrated in the following table:

Table 13: Analysis of Market Risk Capital Requirements (MRCR)

(£m)	31 March 2018	31 March 2017
Asset class		
Consolidated equities	4.0	6.8
Commodities	3.6	2.6
Fixed income and interest rates	0.5	0.7
Foreign exchange	3.9	1.1
Countdowns and binaries	-	-
	12.0	**11.2**

4.4 Operational risk

These are the risks of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal and regulatory risk which is the risk of loss resulting from the failure to comply with laws as well as prudent ethical standards and contractual obligations. Operational Risks also includes the exposure to litigation from all aspects of the Group's activities but excludes strategic and reputational risk.

Although Operational risk management is the responsibility of every employee, the Group has a dedicated Operational Risk function.

The Group has adopted the Basic Indicator Approach under Article 315 of the CRR to calculate the Pillar 1 capital requirements for operational risk.

Risk mitigation measures for key risks are in place to control exposure within Board-approved risk appetite levels. Further information can be found in on pages 38 to 45 of the CMC Markets plc 2018 annual report and financial statements.

Principal operational risks

The Group's key operational risks and their principal mitigation measures are as follows:

Business change

This is the risk that business change projects are ineffective, fail to deliver stated objectives, or result in resources being stretched to the detriment of business as usual activities. Notable business change risks for the Group are platform upgrades and the implementation of the ANZ Bank stockbroking partnership. Key user engagement in the development and testing of all change programmes and significant post-implementation support, monitoring and review procedures are all in place to minimise this risk to the Group.

Business continuity and disaster recovery

Business continuity and disaster recovery risk is the risk that a physical business continuity event or system failure results in a reduced ability or inability to perform core business activities or processes. The use of external specialist premises to enhance resilience in the event of disaster recovery, periodic testing and a prompt response procedure to significant systems failures or interruptions help the Group to mitigate against the threat of unavailability of employees, premises or services due to a variety of possible events, some of which are outside the Group's control.

Financial crime

As a provider of financial services to retail markets, the Group is exposed to the threat of abuse of its services to commit financial crime including, but not limited to, fraud, bribery, market abuse and money laundering. Therefore the financial crime function carries out formal and regular risk assessments across global operations as well as implementing regular and on-going training and awareness programmes for staff at all levels and in all jurisdictions.

Information and data security

Information and Data Security risk is the risk of unauthorised access to or external disclosure of client or company information, including those caused by 'cyber attacks'. Protection of personal information provided by clients and employees is also a key concern. Technical and procedural controls are implemented by the dedicated Information Security & Data Protection resource within the Group to minimise the occurrence of information security and data protection breaches.

Information technology and infrastructure

Information Technology & Infrastructure risk is the risk of loss of technology services due to loss of data, system or data centre or failure of a third party to restore services in a timely manner. To compete effectively in a market that is characterised by innovation in both products and services, the Group must be able to anticipate, respond and deliver robust and continually enhanced technology. Mitigation measures include continuous investment into the increased functionality, capacity and responsiveness of systems and infrastructure, rigorous testing regimes and constant monitoring of system performance.

Legal (commercial / litigation)

Legal risk is the risk that disputes deteriorate into litigation that could expose the Group to significant commercial, financial, regulatory or reputational damage. In order to deal with such a threat the Group ensures that it is compliant with legal and regulatory requirements and engages early with legal advisors and other risk managers when managing complaints which have a legal/litigious aspect.

Operations (processing)

The Group defines Operations (Processing) risk as the risk that the design or execution of business processes is inadequate or fails to deliver an expected level of service and protection to client or company assets. The Group has invested in system development, upgraded process automation and enhanced staff training and oversight in key business processing areas to reduce this risk.

Outsourcing and procurement

Outsourcing and Procurement risk is the risk of third party organisations inadequately or failing to provide or perform the outsourced activities or contractual obligations to the standards required by the Group. Mitigations include due diligence performed ahead of outsourcing being agreed and regular monitoring of performance undertaken.

People

People risk is the risk of loss of key staff, or having insufficient skilled resources available. To manage and mitigate this risk, the Board has directed that the Group maintain an active succession and resource plan for all key individuals and groups/teams with its objectives of retaining key individuals, developing personnel capabilities and optimising continuous professional development.

Regulatory and compliance

The Group faces the risk of regulatory sanction or legal proceedings as a result of failure to comply with regulatory, statutory or fiduciary requirements or as a result of a defective transaction. The Group must satisfy regulatory requirements in many jurisdictions and maintains a programme of comprehensive monitoring to ensure that standards are met consistently.

4.5 Interest rate risk on the non-trading book

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

Interest rate risk is felt by the Group through a limited number of channels: income on segregated client and own funds; debits on client balances that are over a pre-defined threshold; and changes to the value of fixed rate UK government securities held.

The sensitivity analysis performed is based on a reasonable and possible move in the floating rate by 0.50% upwards and 0.25% downwards. This is summarised in the below table, and reflects the Group's view that in the current economic environment, interest rate volatility is unlikely to have a significant impact on the profits of the Group.

Table 14: Interest rate movement - non-trading book

31 March 18 (£m)	Absolute increase	Absolute decrease
Impact of	**0.50% change**	**0.25% change**
Profit after tax	0.9	(0.5)
Equity	0.9	(0.5)

5. Remuneration disclosure

The Group is required to comply with the Remuneration Code ("the Code") requirements within the FCA's handbook of rules in accordance with Article 450 of the CRR. These rules recognise that not all the Code's principles apply to firms equally and therefore introduce a concept of proportionality, internal organisation (including legal structure) and the nature, scope and complexity of its activities.

The FCA has defined a high level three tier proportionality framework as set out in the FCA's General Guidance on Proportionality relating to the Remuneration Code of SYSC19A. This sets out their expectations on the level of application of the Code requirements to different types of firm. Within these tiers, the Group meets the definition of the proportionality tier 3, and these disclosures reflect the requirements for such tier 3 firms.

5.1 Decision making process for determining remuneration policy

The RemCo consists of the Group's Non-Executive Directors. Meetings are held at least twice a year and written terms of reference, approved by the Board, include:

- Consideration and periodic recommendation to the Board of the remuneration policy (including incentives linked to the Group's performance measured, amongst other things, by financial results adjusted for risks) relating to the executive Directors and other senior managers;
- The review of Group-wide policy and approach for the employees in the Group as a whole; and
- The Committee obtains independent external advice from Willis Towers Watson, a consultancy specialising in executive remuneration.

RemCo has incorporated sound risk management practices into remuneration policy.

- The Chief Operating and Financial Officer whose responsibilities include Risk, provides upfront input into (i) annual reviews of remuneration policy, (ii) future design of remuneration structures, and (iii) remuneration governance, in particular for Material Risk Takers
  (MRT) highlighting any design aspects which may encourage excessive risk-taking
- The Chief Operating and Financial Officer also helps identify, and set targets for, risk metrics to be used in incentives and performance assessments and sign off end-of-year remuneration decisions (including aggregate annual bonus pool, long term incentive plan ("LTIP") vesting), including
  - Validating and assessing risk-adjustment techniques;
  - Confirming whether results have been achieved within the Group's risk appetite and framework; and
  - Highlighting any material issues around regulatory breaches, customer outcomes, or litigation.

5.2 Code Staff Criteria

The FCA Remuneration Code requires the Group to identify individuals whose professional activities have a material impact on its risk profile (known as "Code Staff") and the Code requirements and disclosures (applicable to tier 3 firms) apply to those individuals.

The following criteria have been identified as meeting the FCA's requirements for Code Staff:

- Extent to which each individual has the ability and authority to make decisions that may impact on material areas of risk set out in CMC's internal risk documentation including: ICAAP report, Risk Register and Risk Assessment Matrix (or similar/ comparable documentation);

- Reporting lines including but not limited to direct reporting line to the CEO;

- Primary responsibilities; staff performing a Significant Influence Function within CMC Markets;

- Level of autonomy in role;

- Extent to which each individual has the ability and authority to make decisions that may impact on material areas of risk set out in CMC's internal risk documentation including: ICAAP report, Risk Register and Risk Assessment Matrix (or similar/ comparable documentation); and

- Level of earnings.

The Group has a policy on diversity as detailed on page 28 of the CMC Markets plc 2018 annual report and financial statements in accordance with CRR Article 435(2)(3) .

5.3 Link between pay and performance

The Group's remuneration policy supports the Group's business strategy, which encourages and rewards for growth and shareholder alignment. It is based on building long-term relationships with clients and employees, and managing the financial consequences of business decisions across the entire economic cycle.

Overall the policy is designed to provide packages which attract and retain directors, senior management and employees of the highest calibre and motivate them to perform to the highest standards.

At the same time, the objective is to align individual rewards with the Group's performance, the interests of shareholders, and a prudent approach to risk management.

The variable remuneration element consists of an annual incentive and an LTIP. For the financial year, ending 31 March 2019 the Group is seeking shareholder approval for an amended Directors Remuneration Policy including a combined incentive plan for Directors and senior managers as set out on page 66 to 76 of the CMC Markets plc 2018 annual report and financial statements[2].

All employees are eligible to participate in the annual incentive, which is a Group discretionary bonus scheme unless they participate in another specific incentive scheme.

Directors, senior managers and other identified staff also participate in an LTIP.

Awards under the LTIP were made in 2016 in the form of non-performance related share rights. The purpose of the awards were to incentivise employees to reach the Company Listing and retain senior management and key staff for a period post listing. In order to continue to incentivise Directors and other senior managers on a long-term basis and ensure sustained growth, awards of performance shares under the LTIP were made later in 2016 and annually since.

In addition to the above variable remuneration, a Share Incentive Plan (SIP) was implemented in 2016 for all employees; the plan gives employees the opportunity to purchase investment shares and to receive matching shares which vest after three years subject to the participant remaining employed by the Group. The plan is tax qualified for UK employees, for employees in Australia the SIP award is in the form of options over shares, and for employees in all other countries the awards are in the form of Phantom (cash settled) shares. These share-based benefits reinforce alignment with shareholders' interests at all levels of the organisation.

Design characteristics

Remuneration is delivered via a combination of fixed and variable elements, which includes base salary, pension and other benefits, an annual bonus and a long term incentive (for Directors, senior management and other identified staff only).

All employees receive a fixed salary that reflects their market value, responsibility, and contribution to the Group. The Group pays market competitive salaries. All employees are eligible to be considered for a variable remuneration award through a discretionary annual bonus unless they participate in another specific incentive. Any bonus payment is subject to the achievement of Group targets, business unit and individual objectives, and risk criteria.

The awards under the most recent LTIP award are in performance shares linked to the achievement of three conditions: diluted earnings per share, total shareholder return relative to companies in the FTSE 250 (excluding investment trusts) and customer satisfaction measures over a period of 3 years. There is currently no additional deferral of the vested shares.

Executive Directors are required to build a shareholding in the company over a period of five years equal to 200% of base annual salary.

Ratio between fixed and variable remuneration

As a firm in proportionality level three, RemCo applies an appropriate balance between fixed and variable remuneration. RemCo also ensures that the remuneration policies do not encourage unnecessary risk taking.

Main parameters and rationale for any variable component

Variable remuneration is delivered in the form of cash for the annual incentives and in the form of nominal and nil cost share options for all long term incentives.

[2] At the Annual General Meeting of CMC Markets plc held on 26 July 2018, shareholders approved the adoption of the Directors Remuneration Policy and Combined Incentive Plan

The LTIP metrics include diluted earnings per share as set by the RemCo, total shareholder return relative to the companies in the FTSE 250 index (excluding investment trusts) and customer satisfaction over a period of three years. The scheme is designed to ensure a clear link between these metrics and is simple to operate.

Senior managers and other employees are eligible for the Group's annual discretionary bonus scheme. The key financial performance measure used to determine the annual bonus pool is Profit Before Tax ("PBT") at Group level, together with an assessment of risk. A bonus pool is determined by reference to the achievement of PBT and after an assessment of risk. The pool is then allocated to eligible employees based on the achievement of individual targets.

Variable remuneration for Directors and other senior managers are subject to malus and clawback provisions.

5.4 Remuneration cost for Code Staff

For the year ending 31 March 2018 the aggregate remuneration in respect of Code Staff was as follows:

Table 15: Code staff aggregate remuneration for the year ended 31 March 2018 (£m)

	Executive Directors		Code Staff	
31 March 2017	**Number of recipients**	**Amount (£m)**	**Number of recipients**	**Amount (£m)**
Fixed remuneration – FY18	**3**	**1.1**	**20**	**2.7**
Variable remuneration – Award FY18				
Cash	2	0.0	16	0.5
Shares (LTIP, SIP – Deferred)	2	0.8	14	0.7
Share Linked Instruments	-	-	-	-
Other	-	-	-	-
Total		**0.8**		**0.8**
Outstanding Deferred Remuneration				
Vested	2	0.0	14	0.0
Paid Out	-	-	-	-
Reduced through performance adjustments	-	-	-	
Unvested	2	0.0	14	0.2
Lapsed due to leaving service	-	-	1	0.0
New Sign-on & Severance Payments	-	-	-	-
Severance payments	-	-	-	-

Notes to the table:

- Fixed remuneration: includes base salary and pension (super guarantee in Australia) but excludes other benefits
- Variable remuneration - Cash: The total earned in cash during the year ended 31 March 2018
- Variable remuneration - 'Shares (LTIP, SIP-Deferred)': includes retention awards vested in February 2018 including dividend equivalents; the value for the retention award was the taxable value of £1.58 per share. The figure includes SIP dividend and matching shares granted during the year ended 31 March 2018; the share price used is at 29 March 2018 of £1.69
- Outstanding Deferred Remuneration; for the purpose of comparison, all unvested and vested awards are valued at the share price as at 29 March 2018 of £1.69
- Outstanding Deferred Remuneration – Vested: the SIP dividend shares granted during the year ended 31 March 2018. These are non-forfeitable but still within the holding period and cannot be sold.
- Unvested includes life to date value of matching shares, and retention awards
- Lapsed due to leaving includes forfeited matching and free shares

Code staff aggregate remuneration of EUR1m or more for the year ended 31 March 2018

No code staff were paid in excess of EUR1m during the year ended 31 March 2018.

6. Further information

Should you have any queries, please contact:

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