IG Markets Ltd ▫ Cannon Bridge House ▫ 25 Dowgate Hill ▫ London EC4R 2YA
Switchboard +44 (0)20 7896 0011 ▫ Fax +44 (0)20 7896 0010
Helpdesk 0800 195 8009 / +44 (0)20 7633 5320
Email helpdesk@igmarkets.com ▫ www.igmarkets.co.uk

IG Markets Limited

4008957

Annual report and financial statements

31 May 2012

Registered No 4008957

Directors

P G Hetherington
T A Howkins
C F Hill
A R MacKay (resigned 31 July 2012)
M E F Tooth (resigned 17 August 2011)

Secretary

B Messer

Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Bankers

Lloyds TSB Bank plc
10 Gresham Street
London EC2V 7AE

The Royal Bank of Scotland
54 Lime Street
London EC3M 7NQ

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

Brokers

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Registered Office

Cannon Bridge House
25 Dowgate Hill
London EC4R 2YA

Registered No 4008957

Directors' Statutory Report

The Directors have pleasure in submitting their report together with the audited financial statements of IG Markets Limited (the Company) for the year ended 31 May 2012

Principal activities

The Company trades as principal and market maker for foreign exchange and contracts for difference ('CFDs') in both the UK and Europe The Company hedges unmatched trades including those for other Group companies, as considered appropriate, to ensure it is not unacceptably exposed to material losses The Company also provides an IT platform to other Group companies

The Company is a wholly-owned subsidiary of Market Data Limited and the ultimate parent company is IG Group Holdings plc (IG Group Holdings plc together with all its subsidiary undertakings, "the Group") The Company is regulated by the Financial Services Authority

Branches outside the United Kingdom

In line with strategic objectives, the Company has branches in a number of overseas jurisdictions including Australia, France, Germany, Italy, Luxembourg, the Netherlands, Spain and Sweden The branch in Portugal closed after year-end on 31 July 2012 and all Portuguese operations were transferred to the branch in Spain

Results

The Company's profit for the year, after taxation, increased by 6% (2011 12%) to £78,426,139 (2011 £74,102,884)

Dividends

No dividends were paid during the year (2011 nil)

Review of business and future developments

Net trading revenue reached £187,409,194 (2011 £154,726,373), an increase of 21%, reflecting continued growth in many of the markets in which the Company operates The first half of the financial year saw high levels of market volatility which resulted in record monthly revenues This was followed by a subdued third quarter, but the year ended on a strong note with good year on year growth in the final quarter, particularly in April and May Significant changes in volatility boost activity, trading revenue and new client account openings

Net trading revenue from our UK office increased by 18% to £115,192,325 (2011 £97,262,074) UK office revenue includes the CFD business as well as revenues earned through the provision of an IT platform and market risk management services for the Group's overseas subsidiaries The European offices' net trading revenue increased by 26% to £72,216,869 (2011 £57,464,299) and active clients increase by 32%, partially offset by a 5% fall in revenue per client Germany and Italy were the strongest growing in the first half, but in the second half produced weaker growth while our Iberian business accelerated to become the fastest growing of our European businesses Europe now contributes to 39% of revenue and is likely to remain an increasingly significant contributor to revenue growth over the next few years

This was the first full year of operation for our Amsterdam office, which we opened in May 2011 The business performed well during the year and by the end of the year was achieving monthly revenues of £100k We remain focused on evaluating opportunities to enter new markets whilst ensuring that we continue to develop our established offices

Administrative costs increased by 34% to £90,732,366 (2011 £67,689,320) driven by an increase in irrecoverable sales taxes of £3,121,529 to £4,479,193 (2011 £1,357,664) and employee remuneration costs of 45% to £47,157,838 (2011 £32,499,389) The significant increase in sales taxes is in relation to the application of the Group's VAT recovery agreement with HM Revenue and Customs in prior years The increase in employee related costs relates to an increase in both performance-related bonuses and an increase in the average number of employees

Administrative expenses include recharges from a related party (see notes 4, 7 and 28) of £46,938,293 (2011 £34,468,632), an increase of 34%

Operating profit as a result of the above factors increased by 12% to £104,693,338 (2011 £93,806,363)

Directors' Statutory Report

EBITDA is used as the primary measure to assess the performance of our business Operating profit in the Statement of comprehensive income is reconciled to EBITDA in the following table

	2012			2011(restated)		
	£	£	£	£	£	£
	UK	Europe	Total	UK	Europe	Total
Net trading revenue	115,192,325	72,216,869	187,409,194	97,262,074	57,464,299	154,726,373
Operating profit	61,492,502	43,200,836	104,693,338	59,276,479	35,529,884	93,806,363
Depreciation and amortisation	1,918	246,224	248,142	8,583	236,651	245,234
EBITDA	61,494,420	43,447,060	104,941,480	59,285,062	34,766,535	94,051,597

In this financial year the Company received no dividend (2011 £4,353,084 from its indirect subsidiary, IG Asia Pte Limited)

Shareholders' equity increased from £174,385,091 to £252,990,507 as at 31 May 2012

Revenue at the start of the current financial period has been lower than the same period last year, as dull markets in this period have presented the Company's clients with fewer trading opportunities However, 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 FSA rules, the Company's capital resources exceeded the capital resources Pillar 1 requirement by 300 2% (2011 240 3%) Total regulatory capital resources as at 31 May 2012 were £251 1m (2011 £170 5m) 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)
M E F Tooth (resigned 17 August 2011)

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 (2011 4) for the Company

Directors' Statutory Report

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 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

Risk appetite statement and Key Risk Indicators

The Group takes responsibility for risk management at all levels of the Group The risk appetite statement is defined by the Board and provides guidelines for risk management throughout the business To help define the risk appetite statement, the Group has identified three major categories of risk

- **Business-model risks**
  These are risks actively managed and the Group is able to measure, control, and assign limits and parameters to
  - Client credit risk
  - Market risk
  - Liquidity risk
- **Industry risks**
  These are risks accepted as a consequence of operating in the financial services sector For these risks the Group sets a tolerance rather than an appetite They include (but are not limited to)
  - Financial institution credit risk
  - Operational risk
  - Regulatory risk
- **Environmental risks** These are risks over which the Group has minimal control They include (but are not limited to)
  - Natural disasters such as floods, earthquakes and disease epidemics
  - Strikes and civil unrest

The Group aims to maintain a conservative risk-reward profile and have developed a 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, staff and 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 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

The Risk Management Framework is designed to embed management of business risks throughout the organisation The effectiveness of controls is assessed by the Independent Control functions - namely Finance, Risk, Compliance, Legal and Internal Audit

The Group's system of controls is designed to ensure operational risks are mitigated to the level prescribed by the Group Risk Appetite Statement

Directors' Statutory Report

In addition to the Control Functions, the Group has embedded much of the risk management into underlying business operations Heads of Department are responsible for maintenance of Risk Registers and, where necessary, taking action to mitigate risks and enhance the control environment The Risk and Compliance Control Functions use these registers in co-ordinating the identification, measurement and monitoring of risk across the business

The principal business risks comprise of regulatory, operational, credit and market risk Each risk and how it is mitigated is outlined below

Regulatory risk is the risk of non-compliance with, and future changes to, regulatory rules potentially impacting our business in the markets in which the Group operate The Group's ability to do business is dependent on obtaining and maintaining the necessary regulatory authorisations and remaining in compliance with these Regulatory risk is therefore one of the most significant risks that the Group faces as a business Regulatory risk arises because the Group's products have several features which make them higher risk when compared to traditional forms of trading They are leveraged, derivative products, are not listed on any exchange (apart from Nadex products) and are not assignable or tradable with any other third party Consequently, the regulatory licenses, which enable the Group to trade its products with retail clients, are subject to a large number of rules Compliance with these rules is fundamental to the business and the Group invests significant resources to ensure that it complies with both the letter and the spirit of these rules

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 the Group cannot influence The Group has 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 the Group's strategy and it invests significantly in IT infrastructure to ensure that these platforms are resilient

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

Liquidity risk is the risk that the Group will be unable to meet payment obligations as they fall due Liquidity risk is managed by ensuring that the Group has sufficient liquidity to meet our broker margin requirements and other financial liabilities when due, under both normal and stressed conditions The Group carried out an Individual Liquidity Adequacy Assessment (ILAA) during the year, and while this applies specifically to its FSA regulated entities, it provides the context within which liquidity is managed throughout the business

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

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

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

a) 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 Groups also maintains multiple brokers for each asset class Where possible, the Group negotiates for our funds to receive client money protection which can reduce direct credit exposure

Directors' Statutory Report

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 the Group deposit client money Group policy is that all financial institutions holding client money must have a minimum Standard and Poor's short-term and long-term rating of A-2 and A- respectively In some operating jurisdictions it can be problematic to find a counterparty satisfying these requirements and in these cases the Group seeks to use the best available counterparty

b) 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, 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

The Group mitigates client credit risk in a number of ways The Group only accept clients that pass certain suitability criteria, and its 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

The Group offers 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 that are available when underlying markets are closed (e g 24 hour quoted indices) and full trading capability on a wide range of mobile devices

In addition, the Group manages our overall credit risk exposure through real-time monitoring of client positions via the 'close-out monitor' and through the use of tiered margining The Group also performs pre-deal credit checking of every client order

Employees

The Group is rapidly growing and provides a fast-moving and successful working environment The

The Group appreciates that the quality of its employees is crucial to the success of the business and offers competitive packages to recognise past performance and retain key talent in the future The Group pays performance-related bonuses to most staff and makes awards under Long-Term Incentive and Value Sharing Plans to key personnel IG was named one of Britain's Top Employers for the fifth year running in 2012

The Group is keen to support the continuing personal and professional training and development of its staff and encourages attendance on external and industry recognised training courses, sponsors staff to undertake a programme of formal education and professional qualification and often offers internal secondments

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

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

Registered No 4008957

Directors' Statutory Report

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

On 17 July 2012, Andrew MacKay, announced his decision to step down from the Board with effect from 31 July 2012

Independent auditors

A resolution to re-appoint the Group's auditors PricewaterhouseCoopers LLP will be put to shareholders at the forthcoming AGM on 18 October 2012

Insurance and indemnities

The Company purchases appropriate liability insurance for all Directors and officers

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

P G Hetherington

Director

30 August 2012

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 In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB) 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 In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB)
- 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

P G Hetherington

Director

30 August 2012

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 2012 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 7, 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 Directors' Statutory Report 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

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 2012 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

Independent Auditors' Report

to the members of IG Markets Limited

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

30 August 2012

Statement of Comprehensive Income

for the year ended 31 May 2012

	Notes	*2012* £	*2011* £
Trading revenue		216,730,813	184,703,261
Interest income on segregated client funds	3	8,029,718	6,841,384
Revenue		224,760,531	191,544,645
Interest expense on segregated client funds		(13,208)	(72,074)
Introducing broker commissions		(29,321,619)	(29,976,888)
Net operating income		195,425,704	161,495,683
Analysed as			
Net trading revenue	3	187,409,194	154,726,373
Other net operating income		8,016,510	6,769,310
Administrative expenses		(90,732,366)	(67,689,320)
Operating profit	4	104,693,338	93,806,363
Finance revenue	8	1,839,324	1,706,051
Finance costs	9	(827,358)	(706,042)
Dividend income	10	-	4,396,450
Profit before taxation		105,705,304	99,202,822
Tax expense	11	(27,279,165)	(25,099,938)
Profit for the year		78,426,139	74,102,884

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 15 to 52 are an integral part of these financial statements

Statement of Financial Position

at 31 May 2012

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Property, plant and equipment	13	320,438	287,909
Intangible assets	14	14,131	38,414
Investment in subsidiaries	15	3,854,891	3,854,891
Deferred tax asset	11	239,600	322,775
		4,429,060	4,503,989
Current assets			
Trade receivables	16	206,859,647	266,982,864
Prepayments and other receivables	17	95,030,115	113,496,141
Cash and cash equivalents	18	209,445,431	98,527,899
		511,335,193	479,006,904
TOTAL ASSETS		515,764,253	483,510,893
Liabilities			
Current liabilities			
Trade payables	19	104,754,103	176,145,504
Other payables	20	145,902,528	114,895,955
Income tax payable		12,117,115	18,084,343
Total liabilities		262,773,746	309,125,802
Capital and reserves			
Equity share capital	21	13,000,000	13,000,000
Capital reserve	22	606,723	427,446
Retained earnings		239,383,784	160,957,645
Total equity		252,990,507	174,385,091
TOTAL EQUITY AND LIABILITIES		515,764,253	483,510,893

The notes on pages 15 to 52 are an integral part of these financial statements

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

Director
P G Hetherington

30 August 2012

Statement of Changes in Shareholders' Equity

for the year ended 31 May 2012

	Equity share capital £	*Capital reserve* £	*Retained earnings* £	*Total equity* £
At 1 June 2010	13,000,000	319,717	86,854,761	100,174,478
Profit for the period	–	–	74,102,884	74,102,884
Other comprehensive income for the period	–	–	–	–
Total comprehensive income for the period	–	–	74,102,884	74,102,884
Excess of tax deduction benefit on share-based payments recognised directly in equity	–	(14,476)	–	(14,476)
Equity-settled employee share-based payments	–	122,205	–	122,205
Equity dividends paid	–	–	–	–
Movement in shareholders' equity	–	107,729	74,102,884	74,210,613
At 31 May 2011	13,000,000	427,446	160,957,645	174,385,091
Profit for the period	–	–	78,426,139	78,426,139
Other comprehensive income for the period	–	–	–	–
Total comprehensive income for the period	–	–	78,426,139	78,426,139
Excess of tax deduction benefit on share-based payments recognised directly in equity	–	3,866	–	3,866
Equity-settled employee share-based payments	–	175,411	–	175,411
Equity dividends paid	–	–	–	–
Movement in shareholders' equity	–	179,277	78,426,139	78,605,416
At 31 May 2012	13,000,000	606,723	239,383,784	252,990,507

The notes on pages 15 to 52 are an integral part of these financial statements

Cash Flow Statement

for the year ended 31 May 2012

	Notes	2012 £	2011 £
Operating activities			
Operating profit		104,693,338	93,806,363
Adjustments to reconcile operating profit to net cash flow from operating activities			
Net interest income on segregated client funds		(8,016,510)	(6,769,310)
Depreciation of property, plant and equipment	4, 13	226,905	214,821
Amortisation of intangible assets	4, 14	24,283	30,413
Share-based payments expense	7	175,411	122,205
Non-cash foreign exchange gains in operating profit		653,927	1,325,736
Impairment/ (recovery) of trade receivables		1,635,013	(791,110)
Decrease/(increase) in trade and other receivables		79,820,108	(124,600,374)
(Decrease)/ increase in trade and other payables		(42,525,134)	71,040,376
Cash generated from operations		136,687,341	34,379,120
Income taxes paid		(33,190,362)	(26,780,878)
Interest received on segregated client funds		7,550,698	6,261,270
Interest paid on segregated client funds		(13,209)	(99,140)
Net cash generated from operating activities		111,034,468	13,760,372
Investing activities			
Interest received		1,725,654	1,689,566
Purchase of property, plant and equipment	13	(259,434)	(135,838)
Payments to acquire intangible assets	14	-	(7,712)
Dividends received	10	-	43,366
Net cash generated from investing activities		1,466,220	1,589,382
Financing activities			
Interest paid		(827,358)	(717,435)
Net cash used in financing activities		(827,358)	(717,435)
Net increase in cash and cash equivalents		111,673,330	14,632,319
Cash and cash equivalents at the beginning of the year		98,527,899	83,444,371
Exchange gains on cash and cash equivalents		(755,798)	451,209
Net cash and cash equivalents at the end of year	18	209,445,431	98,527,899

The notes on pages 15 to 52 are an integral part of these financial statements

Notes to the Financial Statements

at 31 May 2012

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

The financial statements of IG Markets Limited for the year ended 31 May 2012 were authorised for issue by the Board of Directors on 30 August 2012 and the statement of financial position signed on the Board's behalf by P G Hetherington 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

Basis of preparation

The accounting policies which follow have been consistently applied in preparing the financial statements for the year ended 31 May 2012 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

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 Group has adequate resources to continue in operational existence for the foreseeable future

Parent company and Group financial statements

The parent company throughout the year was Market Data Limited which is a wholly owned subsidiary of IG Group Limited The ultimate parent company is IG Group Holdings plc

The Company is exempt under s400 of the Companies Act 2006 from preparing group financial statements because they have been included in the consolidated financial statements of IG Group Holdings plc, a company incorporated in the United Kingdom

The financial statements of IG Group Holdings plc and its subsidiary companies, which include the results of IG Markets Limited, may be obtained from Cannon Bridge House, 25 Dowgate Hill, London EC4R 2YA The Group financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the year ended 31 May 2012 applied in accordance with the provisions of the Companies Act 2006

Foreign currencies

The Company's functional currency is Sterling Transactions in foreign currencies are translated into the functional currency at the rate prevailing on the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the statement of financial position date Non-monetary assets and liabilities carried at fair value that are dominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Gains and losses arising on translation are taken to the statement of comprehensive income

Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses

Notes to the Financial Statements

at 31 May 2012

2. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended

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 separable 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
- Client lists - sum of digits method over 3 to 5 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 2012

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 2012

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

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 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

Notes to the Financial Statements

at 31 May 2012

2. Accounting policies (continued)

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 Services Authority (FSA) 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 18 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

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

Notes to the Financial Statements

at 31 May 2012

2. Accounting policies (continued)

Taxation (continued)

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

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

Notes to the Financial Statements

at 31 May 2012

2. Accounting policies (continued)

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 Share Incentive Plan (SIP) and Long-Term Incentive Plans (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 2012

New and amended standards adopted by the Company

The Company has adopted the following new or amended standards as of 1 June 2011

- Amendment to IFRS 7 (revised) "Financial Instruments Disclosures" The amended standard introduces additional disclosures in relation to the transfers of financial assets
- IAS 24 (revised) "Related party disclosures", issued in November 2009 (effective 1 January 2011) This standard clarifies the definition of a related party and includes an explicit requirement to disclose commitments involving related parties

The following new standards and interpretations are also effective for accounting periods beginning 1 June 2011 but have not had a material impact on the presentation of, nor the results or financial position of the Company

- IFRIC 14 "Prepayments of a Minimum Funding requirement (effective January 2011)"
- IFRIC 19 "Extinguishing financial liabilities with equity instruments"

Notes to the Financial Statements

at 31 May 2012

2. Accounting policies (continued)

Other new standards, amendments and interpretations, including those listed below, have been issued but are not effective for accounting periods beginning 1 June 2011 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 Company has yet to assess the impact of IFRS 9
- IFRS 13 "Fair value measurement" (effective 1 January 2013)
- IFRS 10 "Consolidated Financial Statements" (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 12,"Income taxes" on deferred tax assets or liabilities on investment property (effective 1 January 2012)
- Amendment to IAS 1 "Presentation of financial statements" on OCI (effective 1 July 2012)
- 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)

The new standards and amendments listed 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

	2012	*2011*
	£	*£*
Net trading revenue	187,409,194	154,726,373
Interest Income on segregated client funds	8,029,718	6,841,384
Revenue from external customers	195,438,912	161,567,757

In addition to the above finance revenue is disclosed in note 8

Notes to the Financial Statements

at 31 May 2012

4. Operating profit

	2012	2011
	£	£
This is stated after charging/(crediting)		
Depreciation of property, plant and equipment	226,905	214,821
Amortisation of intangible assets	24,283	30,413
Operating lease rentals	3,231,995	2,947,548
Impairment / (recoveries) of trade receivables	1,131,479	(1,741,415)
Foreign exchange differences	(653,927)	(1,325,736)
Advertising and marketing	13,743,506	14,582,953

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

	2012	2011
	£	£
Administrative expenses include the following recharges from a fellow Group subsidiary		
Staff costs	37,629,125	25,742,350
Operating lease rentals	968,421	1,617,570
IT Maintenance and support	1,928,151	1,693,726
Regulatory fees	279,427	1,780,067
Other	6,133,169	3,634,919
Total expenses recharged from a fellow Group subsidiary	46,938,293	34,468,632

Refer to notes 7 and 28 for further information regarding recharged expenses included in operating profit

5. Auditors' remuneration

Audit fees in relation to audit of financial statements of the Company amounting to £25,200 (2011 £17,000) are borne by a fellow Group undertaking

	2012	2011
Audit related fees	£	£
Fee's payable to the Company's auditor for the audit of the Company's financial statements	6,600	6,286
Statutory and regulatory audit of branches of the Company pursuant to legislation	28,050	18,714
Total audit related fees	34,650	25,000
Other fees to auditors		
Other services relating to taxation		
- Compliance-related services	99,804	77,326
- Advisory-related services	26,888	3,935
All other services	-	4,235
Total other fees	126,692	85,496

Notes to the Financial Statements

at 31 May 2012

6. 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

	2012	2011
	£	£
Emoluments	3,759,511	1,832,540
Pension contributions	184,748	299,828
Share-based payments	1,688,950	1,495,289

	No	No
Members of money purchase pension scheme	4	6

	2012	2011
	£	£
Highest paid Director		
Emoluments	1,221,707	459,894
Pension contributions	62,100	58,333

7. Staff costs

The Company has direct employees in its overseas branches The average monthly number of employees during the year was 73 (2011 67) All employees in the UK are employed by a fellow Group company The staff costs presented below are in relation to direct employees only The staff costs for the year were as follows

	2012	2011
	£	£
Wages and salaries	7,964,948	5,701,305
Social security costs	1,487,971	983,472
Other pension costs	75,795	72,263
	9,528,714	6,757,040

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

	2012	2011
	£	£
Performance related bonuses	5,321,574	3,430,435
Equity settled share-based payments	175,411	122,205
	5,496,985	3,552,640

Staff costs recharged by the fellow group company for services provided by UK staff amounted to £37,629,125 (2011 £25,742,350)

Notes to the Financial Statements

at 31 May 2012

8. Finance revenue

	2012	2011
	£	£
Bank interest receivable	1,184,009	373,008
Interest receivable from brokers	655,310	1,148,456
Interest receivable from clients	5	184,587
	1,839,324	1,706,051

9. Finance costs

	2012	2011
	£	£
Interest payable to clients	187,196	55,465
Interest payable to brokers	164,051	194,605
Bank interest payable	23,054	217,239
Interest paid to a fellow group subsidiary (note 20)	453,057	238,733
	827,358	706,042

10. Dividend income

	2012	2011
	£	£
Dividends receivable from fellow group subsidiaries	-	4,353,084
Other dividends received	-	43,366
	-	4,396,450

11. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the statement of comprehensive income

	2012	2011
Current income tax:	£	£
UK Corporation tax	27,489,603	27,186,159
Adjustment in respect of prior years	(297,479)	(2,494,790)
Total current income tax	27,192,124	24,691,369
Deferred tax		
Origination and reversal of timing differences	87,041	408,569
Tax expense in the statement of comprehensive income	27,279,165	25,099,938

Notes to the Financial Statements

at 31 May 2012

11. Taxation (continued)

(b) Reconciliation of the total tax charge.

The rate of corporation tax in the UK changed to 24% during the year ended 31 May 2012 The tax expense in the statement of comprehensive income for the year is different to the standard rate of corporation tax in the UK of 25 67% (2011 27 67%) The differences are reconciled below

	2012	*2011*
	£	£
Accounting profit before taxation	105,705,304	99,202,822
Accounting profit multiplied by the UK standard rate of corporation tax at 25 67% (2011 *27 67%*)	27,134,552	27,446,113
Effects of		
Non-taxable dividend income	-	(1,204,353)
Expenses not deductible for tax purposes	442,092	1,352,967
Tax over provided in previous years	(297,479)	(2,494,790)
Total tax expense reported in the statement of comprehensive income	27,279,165	25,099,937

The effective corporation tax rate is 25 8% (2011 25%)

(c) Deferred income tax assets

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

	2012	*2011*
	£	£
Depreciation in excess of capital allowances	205,108	246,127
Share-based payments	34,492	76,648
	239,600	322,775

Share-based payment awards have been charged to the statement of comprehensive income but are not allowable as a tax expense until the awards vest The excess of tax relief in future periods over the amount charged to the statement of comprehensive income is recognised as a credit directly to equity

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

	2012	*2011*
	£	£
At the beginning of the year	322,775	745,819
Statement of comprehensive income (charge)/credit	(87,041)	(408,568)
Tax credited /(debited) directly to equity	3,866	(14,476)
	239,600	322,775

Notes to the Financial Statements

at 31 May 2012

11. Taxation (continued)

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

	2012	2011
	£	£
The deferred income tax (charge)/credit included in the statement of comprehensive income is made up as follows		
Decelerated/(accelerated) capital allowances	41,019	(58,588)
Bad debt provision	46,022	(333,894)
Share-based payments	-	(16,086)
	(87,041)	(408,568)
The deferred tax (debited)/credited to equity during the year is as follows		
Share-based payments	3,866	(14,476)

The deferred tax asset recognised in equity relates to a deductible temporary excess of the estimated future taxation benefit and the amounts charged or credited to date in the statement of comprehensive income

The effect of the change in UK corporation tax to 24% from 1 April 2012 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 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 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 paid may be materially lower than the amount accrued and could therefore improve the overall profitability and cash flows of the Company in future periods

On 1 April 2012 the UK corporation tax rate was reduced from 26% to 24% Accordingly the Company's UK earnings will be taxable at a lower rate than has previously been applied Deferred tax assets relating to UK have accordingly been re-measured at 24% as at 31 May 2012

12. Dividends

No dividends were paid in the year (2011 nil)

Notes to the Financial Statements

at 31 May 2012

13. Property, plant and equipment

	Leasehold improvements	*Office equipment, fixtures and fittings*	*Computer, and other equipment*	*Motor Vehicles*	*Total*
	£	£	£	£	£
Cost:					
At 1 June 2010	366,837	178,821	185,840	-	731,498
Additions	102,511	10,333	22,994	-	135,838
Written off	-	-	(15,779)	-	(15,779)
At 31 May 2011	469,348	189,154	193,055	-	851,557
Additions	162,186	32,136	40,326	24,786	259,434
Written off	(141,339)	-	(48,490)	-	(189,829)
At 31 May 2012	490,195	221,290	184,891	24,786	921,162
Depreciation					
At 1 June 2010	188,654	63,115	112,836	-	364,605
Provided during the year	131,828	37,130	45,864	-	214,822
Written off	-	-	(15,779)	-	(15,779)
At 31 May 2011	320,482	100,245	142,921	-	563,648
Provided during the year	129,740	42,355	47,297	7,513	226,905
Written off	(141,339)	-	(48,490)	-	(189,829)
At 31 May 2012	308,883	142,600	141,728	7,513	600,724
Net book value:					
At 31 May 2012	181,312	78,690	43,163	17,273	320,438
At 31 May 2011	148,866	88,909	50,134	-	287,909
At 1 June 2010	178,183	115,706	73,004	-	366,893

Notes to the Financial Statements

at 31 May 2012

14. Intangible assets

	Client list	*Development costs*	*Software and licences*	*Total*
	£	*£*	*£*	*£*
Cost				
At 1 June 2010	261,722	6,376	309,423	577,521
Additions	-	401	7,311	7,712
Written off	-	(1,785)	-	(1,785)
At 31 May 2011	261,722	4,992	316,734	583,448
Additions	-	-	-	-
Written off	-	-	(81,860)	(81,860)
At 31 May 2012	261,722	4,992	234,874	501,588
Depreciation				
At 1 June 2010	261,722	4,967	249,717	516,406
Provided during the year	-	1,810	28,603	30,413
Written off	-	(1,785)	-	(1,785)
At 31 May 2011	261,722	4,992	278,320	545,034
Provided during the year	-	-	24,283	24,283
Written off	-	-	(81,860)	(81,860)
At 31 May 2012	261,722	4,992	220,743	487,457
Net book value				
At 31 May 2012	-	-	14,131	14,131
At 31 May 2011	-	-	38,414	38,414
At 1 June 2010	-	1,409	59,706	61,115

Notes to the Financial Statements

at 31 May 2012

15. Investment in subsidiaries

At cost	*2012*	*2011*
	£	£
At the beginning of the year	3,854,891	3,254,890
Additions (IG Finance Nine Ltd)	-	600,001
At the end of the year	3,854,891	3,854,891

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 Ltd	UK	Ordinary shares	100%	Nominee company
ITS Market Solutions Ltd	UK	Ordinary shares	60%	Software and development sales
Blackfriars AG	Germany	Ordinary shares	100%	Dormant
IG Finance Nine Ltd	UK	Ordinary shares	100%	Financing
Subsidiary undertakings held indirectly				
IG Asia Pte Ltd	Singapore	Ordinary shares	100%	Margin trading

16. Trade receivables

	2012	*2011*
	£	£
Amounts due from brokers	204,927,623	266,043,409
Amounts due from clients	623,780	939,455
Other amounts due from clients[1]	1,308,244	-
	206,859,647	266,982,864

[1]Other amounts due from clients 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 Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

Notes to the Financial Statements

at 31 May 2012

17. Prepayments and other receivables

	2012	2011
	£	£
Other debtors	1,572,943	451,711
Prepayments	1,489,508	1,166,276
Amounts due from Group companies (note 28)	91,967,664	111,878,154
	95,030,115	113,496,141

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

18. Cash and cash equivalents

	2012	2011
	£	£
Gross cash and cash equivalents[1]	548,436,353	429,520,486
Less Segregated client funds[2]	(338,990,922)	(330,992,587)
Own cash and title transfer funds[3]	209,445,431	98,527,899

[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 Services Authority (FSA) '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 (2011 £180 0m) at year end

19. Trade payables

	2012	2011
	£	£
		(restated)
Amounts due to title transfer clients	59,852,228	49,205,239
Intercompany hedging relationship with fellow group subsidiaries (note 28)	40,078,564	116,120,384
Other amounts due to clients[1]	-	7,218,534
Other trade payables	4,823,311	3,601,347
	104,754,103	176,145,504

[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 Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

Notes to the Financial Statements

at 31 May 2012

20. Other payables

	2012	2011
	£	£
Accruals and deferred income	12,608,866	10,344,216
Other taxes and social security	130,609	164,764
Amounts due to Group companies (note 28)	133,163,053	104,386,975
	145,902,528	114,895,955

21. Equity share capital

	2012	2011
	£	£
Allotted, called up and fully paid		
13,000,000 ordinary shares of £1 each	13,000,000	13,000,000

22. Other reserves

Retained earnings

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

Capital reserve

The capital 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 Capital reserves include a credit for the excess of the tax deduction for employee share-based payments over the amounts charged to the statement of comprehensive income

23. Employee share plans

The ultimate holding company, IG Holdings plc, operates three employee share plans for the employees of IG Markets Limited, a Share Incentive Plan (SIP), a Value-Sharing Plan (VSP) and a Long-Term Incentive Plan (LTIP) all of which are equity-settled The entries in the financial statements in respect of share-based payments are as follows

	2012	2011
	£	£
Equity settled share-based payment schemes	175,411	122,205
Expense recharged from fellow subsidiaries	2,364,841	1,694,045
Expense recognised in statement of comprehensive income	2,540,252	1,816,250

Notes to the Financial Statements

at 31 May 2012

23. Employee share plans (continued)

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 maximum number of VSP shares that vest based on the awards made 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*
			No	No	No	No	No
29 Oct 10	528 5p	31 Jul 2013	29,378	-	-	-	29,378
29 Oct 10	528 5p	31 Jul 2014	29,378	-	-	-	29,378
20 July 2011	450 0p	31 Jul 2014	-	66,840	-	-	66,840
20 July 2011	450 0p	31 Jul 2015	-	66,839	-	-	66,839
			58,756	133,679	-	–	192,435

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

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*
			No	No	No	No	No
21 Aug 07	304 0p	21 Aug 10	48,331	-	-	(48,331)	-
29 Oct 10	528 5p	31 Jul 2013	39,039	-	-	-	39,039
			87,370	-	-	(48,331)	39,039

Notes to the Financial Statements

at 31 May 2012

23. Employee share plans (continued)

Fair value of equity-settled awards

The fair value of the equity-settled share-based payments to employees is determined at the grant date The weighted average fair value of the equity-settled awards granted during the year was £231,474 (2011 £217,840)

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

The inputs below were used to determine the fair value of the VSP award issued on 20 July 2011

Share price at grant date (pence)	450 00
3 month average market capitalisation at award date (£m)	£1,671m
Expected life of awards (years)	2 7
Risk-free sterling interest rate (%)	1 12
IG expected volatility (%)	47
Benchmark index expected volatility (%)	33
Expected dividend yield (%)	4 2

The weighted average fair values per award granted are as follows

	At the beginning of the year	*Awarded during the year*	*Lapsed during the year*	*Exercised during the year*	*At the end of the year*
Year ended 31 May 2012	300 11p	264 02p	-	278 25p	283 83p
Year ended 31 May 2011	262 19p	370 75p	278 25p	-	300 11p

24. Obligations under leases

Operating lease agreements where the Company is lessee

The Company has entered into commercial leases on certain properties The lessee has options of renewal on each of these leases with a notice period of three months There were no restrictions placed upon the lease by entering into these leases Future minimum rentals payable under non-cancellable operating leases are as follows

	2012	*2011*
Future minimum payments due	*£*	*£*
Not later than one year	524,846	518,176
After one year but not more than five years	1,357,538	1,882,988
After more than five years	6,926	117,180
	1,889,310	2,518,344

Notes to the Financial Statements

at 31 May 2012

25. Litigation

The Company received a claim issued on 11th November 2010 and in relation to the insolvency of Echelon Wealth Management Limited (Echelon), a former client of the Company This litigation is on-going

Three former clients of Echelon (which went into liquidation in October 2008) namely (i) Stokors SA ("Stokors"), (ii) Mr Lucien Selce ("Selce"), and (iii) Phoenicia Asset Management (Holding) SAL ("Phoenicia") are seeking to recover damages from the Company

The damages sought are made up of two parts, firstly approximately €12 million which the three Claimants had on deposit with Echelon at the time of its liquidation, and secondly a claim for lost profits which Stokors and Phoenicia claim they would have made had they not lost these monies deposited by them with Echelon at the time it collapsed On 30th May 2012 Stokors and Phoenicia amended their Claim in relation to alleged lost profits seeking to recover the sums of €37,706,584 and €19,265,572 respectively (calculated to 25th January 2012) together with continuing alleged daily losses of €31,766 and €16,230 per day respectively which they claim equates to a daily rate of return of 0 4% (or 146% per annum) The Company is investigating the legality of the Claimants' activities giving rise to these alleged rates of return

On the basis of legal and expert advice received, the Company continues to view the claim as speculative No provision has therefore been made in the Company statement of financial position as at 31 May 2012 in relation to this matter

26. Capital commitments

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

	2012	*2011*
	£	£
Property, plant and equipment	532	55,066

Capital commitments for property, plant and equipment at 31 May 2012 primarily relate to the costs associated with the fit out of 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

	2012	*2011*
	£	£
Salaries and other short-term employee benefits	3,759,511	1,832,540
Post-employment benefits	184,748	299,828
Share-based payments	1,688,950	1,495,289
	5,633,209	3,627,657

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

Notes to the Financial Statements

at 31 May 2012

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 with other related parties, are as follows

Related party	*Expenses recharged to related party* £	*Expenses recharged from related party* £	*Amounts owed by related party* £	*Amounts owed to Related Party* £
Parent and ultimate controlling party				
2012	-	-	26,229,422	-
2011	-	-	1,730,277	-
Fellow Group subsidiaries				
2012	-	46,938,293	65,738,242	173,241,617
2011	-	34,468,632	110,147,877	220,507,359
Total Group				
2012	-	46,938,293	91,967,664	173,241,617
2011	-	34,468,632	111,878,154	220,507,359

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 4 and 7 for information regarding these expenses

Included within amounts owed to related parties are trade payables £40,078,564 in relation to an intercompany hedging relationship with a fellow Group subsidiary and £133,163,053 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 2012, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2011 nil)

Refer to note 9 for information regarding interest paid on amounts owed to related parties

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

Notes to the Financial Statements

at 31 May 2012

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

29. Financial instruments (continued)

'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

Accounting classifications and fair values (continued)

'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

Classification of financial instruments

As at 31 May 2012	*FVTPL- Held for trading* £	*Loans and receivables* £	*Other amortised cost* £	*Total carrying amount* £	*Fair value* £
Financial assets					
Cash and cash equivalents	-	209,445,431	-	209,445,431	209,445,431
Trade receivables – due from brokers					
Non-exchange traded instruments	(6,244,387)	173,639,774	-	167,395,387	167,395,387
Exchange-traded instruments	(4,598,722)	42,130,958	-	37,532,236	37,532,236
Total trade receivables – due from brokers	(10,843,109)	215,770,732	-	204,927,623	204,927,623
Trade receivables – due from clients	-	623,780	-	623,780	623,780
Trade receivables – other amounts due from clients	-	1,308,244	-	1,308,244	1,308,244
	-	427,148,187	-	416,305,078	416,305,078
Financial liabilities					
Trade payables – due to title transfer clients	-	-	(59,852,228)	(59,852,228)	(59,852,228)
	-	-	(59,852,228)	(59,852,228)	(59,852,228)

Excluded from the financial assets classified as 'loans and receivables' are amounts due from Group companies £91,967,664 (2011 £111,878,154) Refer to notes 17 and 28

Excluded from the financial liabilities classified as 'other amortised cost' are amounts due to Group companies £173,241,617 (2011 £104,386,975) Refer to notes 19, 20 and 28

Notes to the Financial Statements

at 31 May 2012

29. Financial instruments (continued)

As at 31 May 2011	*FVTPL-Held for trading* £	*Loans and receivables* £	*Other amortised cost* £	*Total carrying amount* £	*Fair value* £
Financial assets					
Cash and cash equivalents	-	98,527,899	-	98,527,899	98,527,899
Trade receivables – due from brokers					
Non-exchange traded instruments	(5,607,485)	236,877,324	-	231,269,839	231,269,839
Exchange-traded instruments	551,431	34,222,139	-	34,773,570	34,773,570
Total trade receivables – due from brokers	(5,056,054)	271,099,463	-	266,043,409	266,043,409
Trade receivables – due from clients	-	939,455	-	939,455	939,455
	(5,056,054)	370,566,817	-	365,510,763	365,510,763
Financial liabilities					
Trade payables – due to title transfer clients	-	-	(49,205,239)	(49,205,239)	(49,205,239)
Trade payables – other amounts due to clients	-		(7,218,534)	(7,218,534)	(7,218,534)
	-	-	(56,423,773)	(56,423,773)	(56,423,773)

Financial instrument valuation hierarchy

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

As at 31 May 2012	*Level 1*[1] £	*Level 2*[2] £	*Level 3*[3] £	*Total fair value* £
Financial assets				
Trade receivables – due from brokers	(4,598,722)	(6,244,387)	-	(10,843,109)

[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

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 2012, 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

Notes to the Financial Statements

at 31 May 2012

29. Financial instruments (continued)

Reconciliation of the movement in Level 3 of the valuation hierarchy

	At 1 June 2011	*Gains or losses in revenue*[1]	*Closed positions*[2]	*Transfers*	*At 31 May 2012*[3]
	£	£	£	£	£
Financial liabilities					
Trade payables – due to clients	-	9,168,274	(9,168,274)	-	-

(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 £187,409,194 (2011 £154,726,373)

Finance revenue totalled £1,839,324 (2011 £1,706,051) 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 £827,358 (2011 £706,042) 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

(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

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(i) Market risk (continued)

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

	2012	*2011*
	£000	*£000*
Equity exposure at year-end	16,535	14,750*
Equity exposure limit at year-end	16,500	16,500
Average equity exposure limit for the year	16,500	16,500

*The average equity exposure for the year ended 31 May 2011 has been disclosed as this is considered more representative of the Company's typical exposure than the year-end equity exposure of £473,000

As noted earlier in , 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

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(i) Market risk (continued)

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 (2012 £715,302, 2011 £604,400) 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

	2012	*2011*
	£000	*£000*
Interest rate derivatives	11,278	21,332
Commodities	6,717	10,261

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

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

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(i) Market risk (continued)

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

	2012	*2011*
	£000	*£000*
US Dollar	2,773	(212)
Euro	(8,037)	351
Australian Dollar	(5,348)	(1,134)
Yen	39	5,711
Other	4,046	4,593

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

	2012	*2011*
	£	*£*
Floating rate		
Cash and cash equivalents	209,445,431	98,527,899
Trade receivables	206,859,647	266,982,864
Trade payables	(104,754,103)	(176,145,504)
	311,550,975	189,365,259

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

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% (2011 0 25%) per annum fall and a 0 75% (2011 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 0 million (2011 £1 6 million) per annum The impact of such a rise in interest rates would increase net interest income on segregated client funds by approximately £5 5 million (2011 £5 3 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

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(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

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

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

b) Client credit risk (continued)

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 2012, 98 92% (2011 98 8%) 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

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

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

b) Client credit risk (continued)

Management of client collateral

The Group also accepts non-cash collateral from a small number of clients in the form of shares or other securities which mitigate the Group's credit risk Clients retain title to the securities lodged whilst their trading account is operating normally, but are required to sign a collateral agreement which will allow the Group to take title and sell the securities in the event of the client defaulting on any margin obligations

Securities accepted as collateral are normally restricted to FTSE 100 stocks, UK Gilts or other high quality bonds The collateral value assigned to the client account is updated daily, and each security is assigned a 'haircut' value e g a client is typically allowed to use 80% of a FTSE 100 current market value and 90-95% of a UK Gilt market value

Clients are only permitted to use non-cash collateral value to cover initial margin requirements, running losses on open positions are not covered under the agreement and are required to be covered by cash as part of the normal margining process

The fair value of collateral held at 31 May 2012 against amounts due from clients was £3,864,318 (2011 £5,788,674)

The following tables present further detail on the Group's and the Company's exposure to credit risk External credit ratings (Standard and Poor's long-term ratings or equivalent) 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

Credit risk

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 Services Authority (FSA) '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 2012

30. Financial risk management (continued)

b) Client credit risk (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 Services Authority (FSA) '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*	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	£	*£*	*£*	*£*	*£*	*£*	*£*	*£*
Individually impaired								
Gross exposure	-	-	10,082,758	10,709,921	-	-	-	-
Allowance for impairment	-	-	(9,716,013)	(9,961,013)	-	-	-	-
	-	-	366,745	748,908	-	-	-	-
Past due but not impaired								
Ageing profile								
0-3 months	-	-	126,476	54,911	-	-	-	-
Older	-	-	-	-	-	-	-	-
	-	-	126,476	54,911	-	-	-	-
Neither past due nor impaired								
Credit rating								
AAA	-	-	-	-	-	-	1,152,313	3,405,935
AA+	-	-	-	-	-	-	-	102,900
AA	-	73,289,630	-	-	-	25,108,412	-	-
AA-	54,838,684	2,523,924	-	-	102,579	2,837,030	-	160,725
A+	29,501,247	98,881,892	-	-	51,725,145	68,887,236	21,756	9,184
A	91,385,148	90,110,569	-	-	157,187,281	930,339	111,423	543,717
A-	28,293,792	-	-	-	-	179,899	429,423	204,572
BB+	-	-	-	-	127,855	321,444	-	102,302
B+	-	-	-	-	91,866	-	-	-
B	-	-	-	-	-	72,901	-	-
BBB+	-	-	-	-	49,181	-	212,926	313,111
BBB	-	-	-	-	-	13,145	358,505	210,050
BBB-	-	638,383	-	-	71,386	115,681	313,879	228,118
CCC	-	-	-	-	16,195	-	-	-
Unrated	908,752	599,011	130,559	135,636	73,943	61,812	1,264,093	508,060
	204,927,623	266,043,409	130,559	135,636	209,445,431	98,527,899	3,864,318	5,788,674
Total carrying amount	204,927,623	266,043,409	623,780	939,455	209,445,431	98,527,899	-	-

Prepayments and other receivables are all unrated (2011 all unrated)

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

b) Client credit risk (continued)

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

	2012	*2011*
	£	*£*
Balance at beginning of year	9,961,020	11,924,786
Impairment loss for the year		
- charge/ (credit) for the year	1,635,013	(791,110)
- recoveries	(576,514)	(950,305)
Foreign exchange	(636,537)	225,529
Write-offs	(666,969)	(447,880)
Balance at end of year	9,716,013	9,961,020

(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 Services Authority (FSA) '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 2012	*£*	*£*	*£*	*£*	*£*
Financial assets					
Cash and cash equivalents	39,824,025	98,907,252	69,823,495	890,659	209,445,431
Trade receivables – due from brokers	71,162,350	71,306,181	20,741,086	41,718,006	204,927,623
Trade receivables – due from clients	262,569	141,392	111,197	108,622	623,780
Total financial assets	111,248,944	170,354,825	90,675,778	42,717,287	414,996,834

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(iii) Concentration risk (continued)

	UK	*Europe*	*Australia*	*Rest of World*	*Total*
As at 31 May 2011	*£*	*£*	*£*	*£*	*£*
Financial assets					
Cash and cash equivalents	27,346,748	29,148,447	39,295,547	2,737,157	98,527,899
Trade receivables – due from brokers	76,724,294	134,190,517	31,491,511	23,637,087	266,043,409
Trade receivables – due from clients	107,663	640,788	115,430	75,574	939,455
Total financial assets	104,178,705	163,979,752	70,902,488	26,449,818	365,510,763

The Company's largest credit exposure to any one individual broker at 31 May 2012 was £55,145,000 (AA rated) or 27% of the exposure to all brokers (2011 £73,312,000, AA rated, 27%) Included in cash and cash equivalents, the Company's largest credit exposure to any bank at 31 May 2012 was £69,818,000 (A+ rated) or 33% of the exposure to all banks (2011 £39,116,000, A+ rated, 31%) The Company has no significant exposure to any one particular client or group of connected clients

(iv) 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 FSA 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 (2011 £180 0 million) and other than for testing purposes were not drawn upon during the current nor proceeding financial year As well as the three-year liquidity forecast, the Group also produces more detailed short-term liquidity forecasts and detailed stress tests

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(iv) Liquidity risk (continued)

The key measure used by the Group for managing liquidity risk is the level of total available liquidity For this purpose total available liquidity calculated as set out in the following table inclusive of undrawn committed facilities Total available liquidity at each year-end was as follows

	2012	*2011*
	£m	*£m*
		(restated)
Own cash and title transfer funds	228,156	124,528
Amounts due from brokers	206,997	267,792
Add back/ (less) other amounts due from/ (to) clients[1]	12,920	(11,639)
Available cash resources	448,073	380,681
Analysed as		
Own funds	388,221	309,228
Title transfer funds	59,852	71,453
Available liquidity		
Available cash resources	448,073	380,681
Less broker margin requirement	(195,954)	(217,360)
Net available cash	252,119	163,321
Less title transfer funds	(59,852)	(71,453)
Net own cash available	192,267	91,868
Of which declared as dividend	(60,769)	(53,051)
Committed banking facilities[2]	180,000	180,000
Total available liquidity (including facilities)	311,498	218,817

[1]The comparative amount has been restated to disclose 'other amounts due from / (to) clients' which represent balances that will be transferred from the Group's own cash into segregated client funds on the immediately following working day in accordance the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

[2]Draw down of the committed banking facilities is capped at 80% of the actual broker margin requirement on the draw down date For example the actual committed facilities available for draw down at 31 May 2012 based on the year end broker margin requirement of £196 0 million were £156 8 million Available draw down of £156 8 million facility equates to total available liquidity as at 31 May 2012 of £288 3 million

The Group's available cash resources enables the funding of large broker margin requirements when required – the level of available cash resources at 31 May 2012 should be considered in light the intra-year high broker margin requirement of £277 1 million, the continued growth of the business and the Group's commitment to segregation of individual clients money as well the final proposed 2012 dividend all of which draw upon available cash resources In the Directors' opinion the Group 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

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(iv) Liquidity risk (continued)

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

Derivative and non-derivative cash flows by remaining contractual maturity

The following tables present the undiscounted cash flows receivable and payable (excluding interest payments) by the Group under derivative and non-derivative financial assets and liabilities allocated to the earliest period in which the Group can be required to pay although the remaining contractual maturities are longer

Amounts payable on demand

As at 31 May 2012	*Derivative*	*Non-derivative*	*Total*
	£	£	£
Financial assets			
Cash and cash equivalents	-	209,445,431	209,445,431
Trade receivables – due from brokers	(10,843,109)	215,770,732	204,927,623
Trade receivables – due from clients	-	623,780	623,780
	(10,843,109)	425,839,943	414,996,834
Financial liabilities			
Trade payables – due to clients	-	(59,852,228)	(59,852,228)
	-	(59,852,228)	(59,852,228)
	(10,843,109)	365,987,715	355,144,606

Derivative trade receivables and payables disclosed in the table above represent the Company's open positions with brokers and clients respectively Non-derivative trade receivables and payables disclosed in the table above represent cash margin held at brokers, closed client debtors, and client trading margin held on deposit respectively Derivative and non-derivative cash flows are presented alongside each other in the table above as they result from the same underlying trading relationship and as the Group has both the legal right and intention to settle on a net basis

Trade receivables are disclosed as repayable on demand as when client positions are closed the corresponding positions relating to the hedged position are closed with brokers Accordingly the Group releases cash margin, which is repaid by brokers to the Group on demand

Trade payables are disclosed in the table above as repayable on demand as positions can be closed at any time by clients and can also be closed by the Company, in accordance with the Group's margining rules If after closing a position a client is in surplus, then the amount owing is repayable on demand by the Company

Notes to the Financial Statements

at 31 May 2012

30. Financial risk management (continued)

(iv) Liquidity risk (continued)

Amounts payable on demand

As at 31 May 2011	*Derivative*	*Non-derivative*	*Total*
	£	*£*	*£*
Financial assets			
Cash and cash equivalents	-	98,527,899	98,527,899
Trade receivables – due from brokers	(5,056,054)	271,099,463	266,043,409
Trade receivables – due from clients	-	939,455	939,455
	(5,056,054)	370,566,817	365,510,763
Financial liabilities			
Trade payables – due to clients	-	(56,423,773)	(56,423,773)
	-	(56,423,773)	(56,423,773)
	(5,056,054)	314,143,044	309,086,990

31. Capital management and resources

Capital management

The Group is supervised on a consolidated basis by the UK's Financial Services Authority (FSA) 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 FSA 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 2011 ICAAP was approved by the Board in January 2012 There have been no capital requirement breaches during the financial year The Group also regularly undertakes three-year stress and scenario testing of its main financial and operational risks to project its future capital and liquidity adequacy requirements

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

On 17 July 2012, Andrew MacKay, announced his decision to step down from the Board with effect from 31 July 2012

Notes to the Financial Statements

at 31 May 2012

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 2012 The consolidated financial statements of IG Group Holdings plc are available from Cannon Bridge House, 25 Dowgate Hill, London EC4R 2YA