CMC Markets plc
Pillar 3 Disclosures
2021

As of 31 March 2021

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1. Overview

1.1 Introduction

The Pillar 3 disclosure is prepared in accordance with the European Union's ("EU") legislative package consisting of the Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulation ("CRR") as implemented by the Financial Conduct Authority ("FCA").

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

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

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

The relevant rules regarding disclosure by institutions are contained in Articles 431 – 455 of the CRR. Disclosures are made where the regulations apply to CMC Markets plc ("the Group") and where the information is not deemed confidential or proprietary by the CMC Markets plc Board (the "Board") as permitted in Article 432.

Quantitative disclosures are made as at 31 March 2021.

1.2 Frequency and scope of disclosures

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

The Pillar 3 disclosures will be published on at least an annual basis on the Group's website (www.cmcmarketsplc.com/group) as a supplement to the CMC Markets plc 2021 annual report and financial statements, in accordance with Article 433 of the CRR.

CMC Markets plc became the ultimate holding company of the Group under a reorganisation in 2006, and is a UK Consolidated Group, subject to consolidated supervision by the FCA. The Group structure and a list of prudentially regulated entities are shown in Chart 1 and Table 1 on page 2.

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

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

Chart 1: Group structure as at 31 March 2021

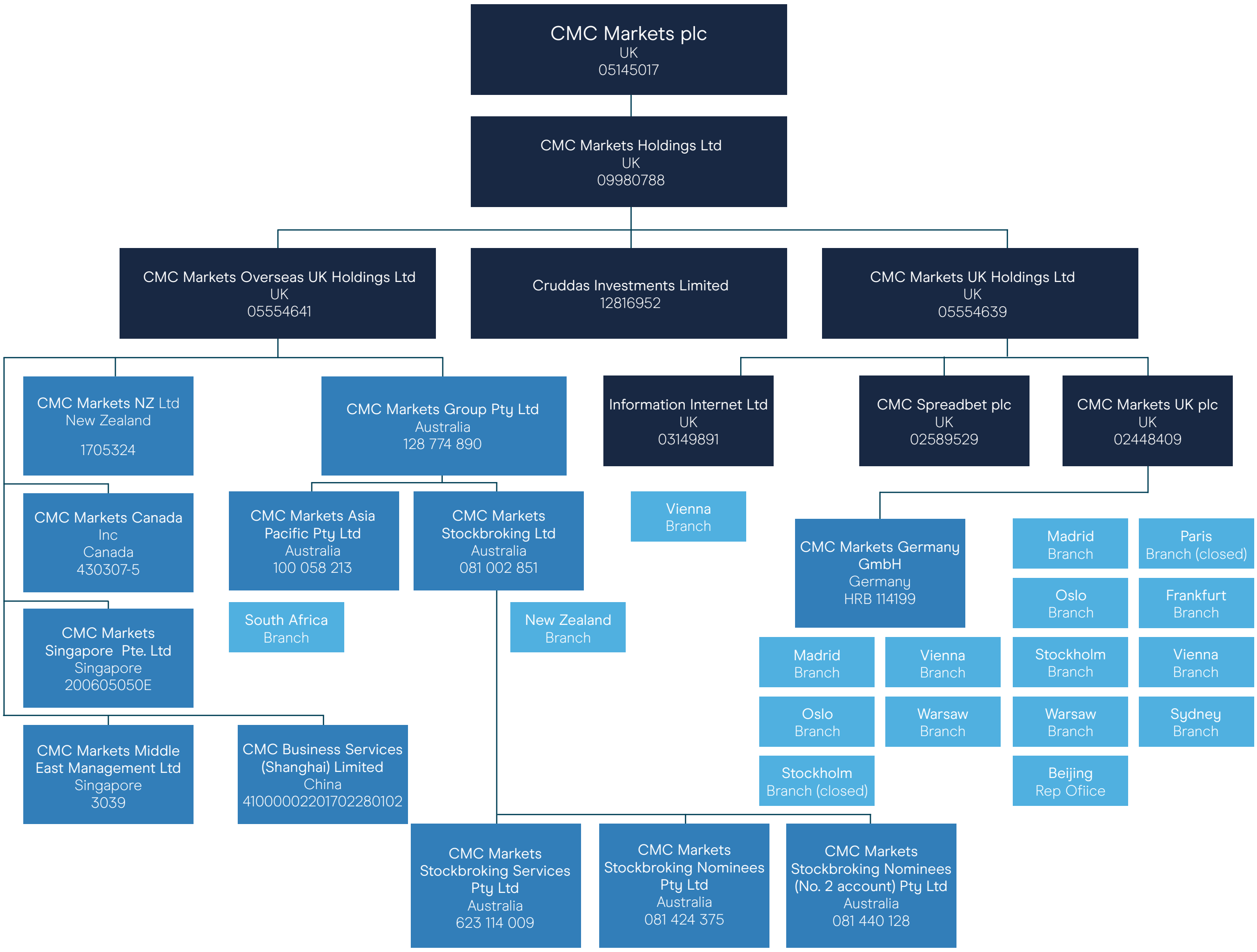


Table 1: Regulated entities and regulator(s)

CMC Markets entity	Financial services regulators
CMC Markets UK plc	Financial Conduct Authority ("FCA")
CMC Markets UK plc – European branches	
Austria Niederlassung Wien der CMC Markets UK Plc	Osterreichische Finanzmarktaufsicht (FMA)
Germany Niederlassung Frankfurt am Main der CMC Markets UK plc	Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin")
Norway CMC Markets UK plc Filial Oslo	Finanstilsynet (The Financial Supervisory Authority of Norway)
Spain CMC Markets UK plc, Sucursal en España	Comisión Nacional del Mercado de Valores ("CNMV"), Spain
Sweden* CMC Markets UK plc Filial Stockholm	Finansinspektionen (The Financial Supervisory Authority Sweden)
Poland CMC Markets UK Plc Oddział w Warszawie	Komisja Nadzoru Finansowego (The Polish Financial Supervision Authority)
CMC Markets UK plc – Representative Office	
Beijing Representative Office of CMC Markets UK plc	China Banking and Regulatory Commission
CMC Markets Germany GmbH	Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin")

CMC Markets entity	Financial services regulators
CMC Markets Germany GmbH – European branches	
Austria CMC Markets Germany GmbH, Niederlassung Wien	Osterreichische Finanzmarktaufsicht (FMA)
Norway CMC Markets Germany GmbH, Oslo	Finanstilsynet (The Financial Supervisory Authority of Norway)
Spain CMC Markets Germany GmbH, Sucursal en España	Comisión Nacional del Mercado de Valores ("CNMV"), Spain
Sweden* CMC Markets Germany GmbH, Filial Stockholm	Finansinspektionen (The Financial Supervisory Authority Sweden)
Poland CMC Markets Germany GmbH, Społka z Ograniczoną Odpowiedzialnością Oddział w Polsce	Komisja Nadzoru Finansowego (The Polish Financial Supervision Authority)
CMC Spreadbet plc	Financial Conduct Authority ("FCA")
CMC Markets Asia Pacific Pty Ltd	Australian Securities and Investments Commission ("ASIC"), Australia Stock Exchange ("ASX") and Chi-X Australia ("Chi-X")
CMC Markets Stockbroking Ltd	ASIC, ASX and Chi-X
CMC Markets Stockbroking Services Pty Ltd	ASIC, ASX and Chi-X
CMC Markets Canada Inc. (Operating as Marches CMC Canada in Quebec)	Investment Industry Regulatory Organization of Canada ("IIROC"), Autorité des Marchés Financiers ("AMF") and British Columbia Securities Commission
CMC Markets NZ Ltd	Financial Markets Authority New Zealand ("FMA")
CMC Markets Singapore Pte Ltd	Monetary Authority of Singapore ("MAS")
CMC Markets Middle East Limited	Dubai Financial Services Authority ("DFSA")

* Branches of CMC Markets UK Plc and CMC Markets Germany GmbH in Sweden were closed in April 2020.

2. Risk management objectives and policies

2.1 Corporate governance structure

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

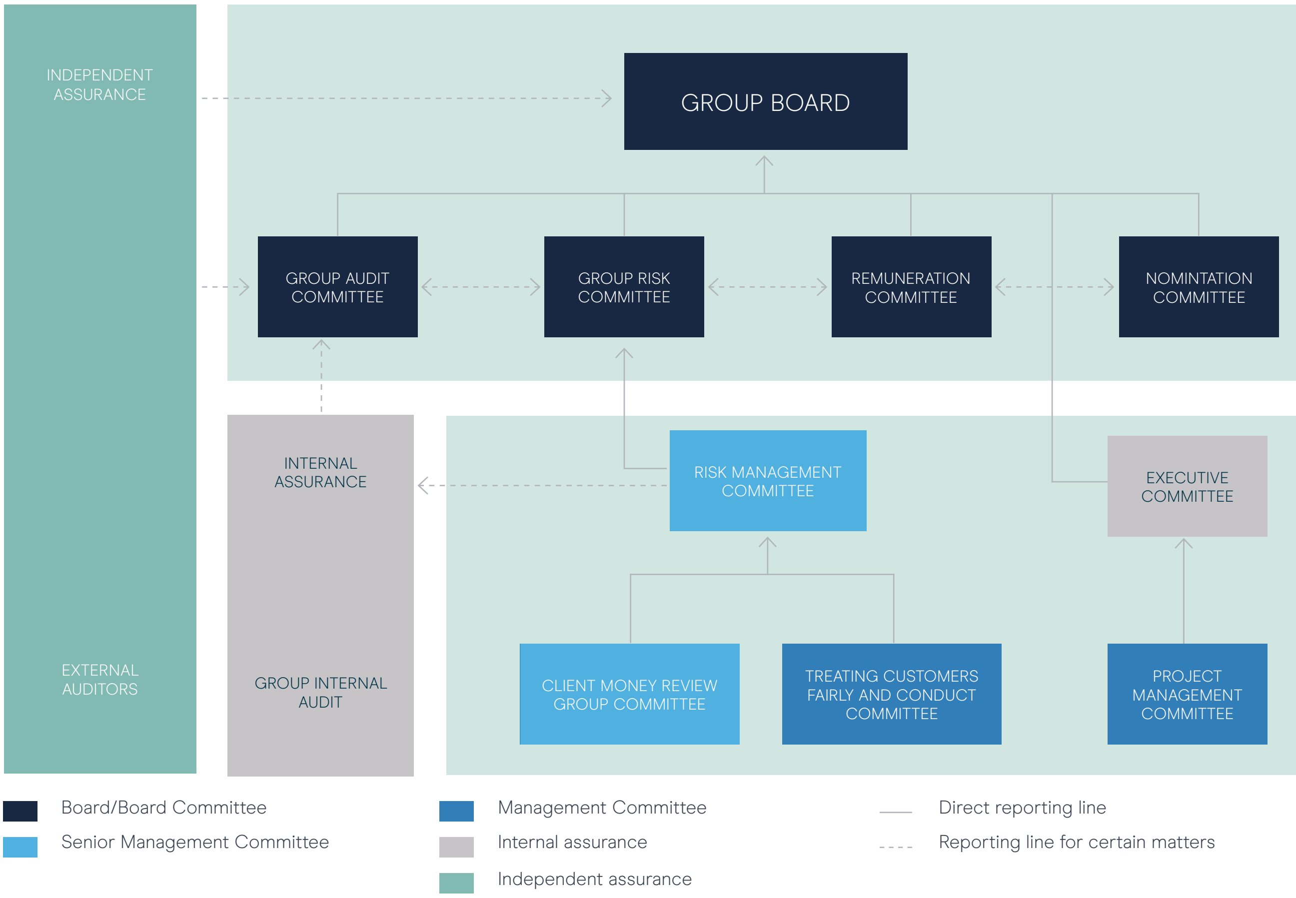
The Board has put in place a governance structure which it believes is appropriate to the operations of an online retail financial services trading group and reflects the size and stage of development of the business. CMC Markets plc is a listed public company and is required to meet the provisions of the Listing Rules of the UK Listing Authority and comply or explain its adherence to the Financial Reporting Council's UK Corporate Governance Code. The Directors support best corporate governance practice and its practical application as considered suitable with regard to the Group's operations. The governance structure is regularly reviewed and monitored by the Board for effectiveness and amended as required to ensure its regulatory responsibilities and the needs of the Group's businesses are fulfilled.

The objectives of the corporate governance structure are:

- to satisfy the needs of the business for proper consideration and decision making;
- to provide a clear management support and monitoring framework to add value to the business and identify and control risks;
- to ensure the Group's internal controls and risk management systems are appropriate and implemented in line with Board approved policies and procedures;
- to continuously and closely monitor global regulatory changes and the impact on the Group;

- to ensure good governance principles are followed, including:
  - clear remits and definitions of responsibility, authority, accountability and lines of report;
  - provision of appropriate delegated authority;
  - a framework to facilitate effective checks and balances in management and oversight processes;
- to allow and encourage effective and constructive challenge of the Executive; and
- to apply best practice governance principles appropriate to the business.

Chart 2: Corporate governance structure as at 31 March 2021



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

Board of Directors

The Board has overall responsibility for the Group's affairs.

The Directors of CMC Markets plc who were in office during the financial year and up to 31 March 2021 were:

James Richards	Chairman
Paul Wainscott	Senior Independent Director
Lord Peter Cruddas	Chief Executive Officer
David Fineberg	Deputy Chief Executive Officer
Sarah Ing	Non-Executive Director (Independent)
Clare Salmon	Non-Executive Director (Independent)
Euan Marshall	Chief Financial Officer
Matthew Lewis	Head of Asia Pacific & Canada

The calibre of the Non-Executive Directors is regarded as more than capable of carrying sufficient weight in the Board's decision-making and to challenge the Executive. The Directors believe that the Board will have a balance of skills, experience and knowledge to provide effective strategic leadership and proper governance of the Company and Group as a whole. The Articles of Association of the Company require all Directors to retire by rotation.

The Board is responsible for the management and oversight of the Group, setting strategic targets and determining policy. The roles of the Chairman and the Chief Executive Officer ("CEO") are separate, defined in writing and have been approved by the Board. The effectiveness of the Board is the responsibility of the Non-Executive Chairman. Supported by the Executive Directors and senior management, the CEO is responsible for the implementation and execution of the Board approved strategy and policy. The CEO manages the Group's operations on a day-to-day basis and is in frequent contact with the Executive Directors and senior management in addition to attending formal Board meetings. Key performance indicators are included in the performance evaluation process for the CEO, Executive Directors and senior management and are used by the Remuneration Committee in determining their remuneration.

It is recognised that certain matters cannot, or should not, be delegated and the Board has adopted a schedule of matters reserved for Board consideration and approval. The matters reserved for the Board fall into the following areas:

- strategy and management
- structure and capital
- financial reporting and controls
- internal controls and risk management
- contracts
- communications
- Board membership and other appointments
- remuneration
- delegation of authority
- corporate governance matters
- policies
- political charitable donations
- appointment of principal professional advisors
- material litigation
- insurance

Board Committees

Board Committees are considered independent to management and are made up of independent Non-Executive Directors.

The CEO, Chief Financial Officer ("CFO"), Deputy CEO, Head of Asia Pacific & Canada, Group Head of Finance, Group Head of Risk, Group Head of Financial Crime and UK Money Laundering Reporting Officer attend Group Audit Committee ("GAC") meetings by invitation. Representatives from PricewaterhouseCoopers LLP ("PwC"), the external auditors, and Grant Thornton LLP, the internal auditors, attend the Committee meetings by standing invitation.

The CEO, CFO, Deputy CEO, Head of Asia Pacific & Canada, Group Head of Risk, Head of Compliance UK and Europe and Head of Compliance and Operational Risk Asia Pacific and Canada attend Group Risk Committee ("GRC") meetings by invitation.

The GAC and the GRC's Terms of Reference were approved by the Board on 5 June 2019 and 28 November 2018 respectively and are available on the Group's website www.cmcmarkets.com/group/committees.

Group Audit Committee

The main role and responsibilities of the GAC are:

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

Group Risk Committee

The main role and responsibilities of the GRC are:

- oversight of the Group's risk appetite and tolerance;
- the review and recommendation of the Risk Appetite Statement and Risk Management Framework;
- the provision of advice and recommendations to the Board to assist in Board decision making in relation to risk appetite and risk management;
- the oversight of financial and liquidity risks including the responsibilities of the risk management function;
- the review, challenge and recommendations to the Board with regard to the ICAAP, ILAA and the Group CFP;
- the oversight of, and making recommendations to the Board on, current risk exposures and future risk strategy;
- the review of the risks associated with proposed strategic transactions;
- the review of the effectiveness of the Group's risk systems;
- the approval of the annual Risk Plan;
- the approval of the annual Compliance Plan; and
- the review of risk taking by Directors and senior management as it impacts their remuneration incentives.

Nomination Committee

The Nomination Committee ("NomCo") consists of Non-Executive Directors and focuses on the effectiveness and structure of the Board and its committees, succession planning, director induction and on-going director training. The NomCo Terms of Reference were approved by the Board on 28 November 2018 and are available on the Group website at www.cmcmarkets.com/group/committees

The main roles and responsibilities of the NomCo, including those in relation to risk management are described in the CMC Markets plc 2021 annual report and financial statements, which are published, on the Group website at www.cmcmarketsplc.com/investors/

Remuneration Committee

The Remuneration Committee ("RemCo") consists of Non-Executive Directors and focuses on Director and senior management remuneration, incentives, retention and Group remuneration matters as required. The RemCo Terms of Reference were approved by the Board on 25 July 2018 and are available on the Group website www.cmcmarkets.com/group/committees

The main roles and responsibilities of the RemCo, including those in relation to risk management are described in the CMC Markets plc 2021 annual report and financial statements, which are published, on the Group website at www.cmcmarketsplc.com/investors/

Senior management committees

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

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

The RMC monitors the key risk areas of the business including financial risk, compliance, financial crime, and liquidity risk. The Group Head of Risk chairs the RMC with senior management and subject matter experts attending for their respective areas of expertise.

Managementment committees

The **Client Money Review Group Committee** ("CMRG"), which reports into the RMC, is a fundamental part of the Group's client money governance and oversight procedures. The CMRG is chaired by the relevant Senior Management Function who is responsible for overseeing the controls and procedures in place to protect client money. The committee is comprised of senior management from across the Group who oversee functions which impact client money. The CMRG forms a key part of the oversight of client money in addition to Compliance, Internal Audit and PwC as external auditors.

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

The **Project Management Committee** ("PMC") reports into the Exco.

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

Control functions

The Control functions comprise of Compliance, Financial Crime, Financial Risk (including Liquidity Risk Management) and Operational Risk. In addition, Legal, Finance, Data Privacy and Security functions are also considered as part of the Control Functions within the Group.

Each control function reporting line is or has access to an ExCo member who in turn, where required, has direct access to the GAC and GRC Chairman.

Regulated Entities: Governance and Senior Managers and Certific tion Regime (the "SMCR") Organisation

The purpose of this sub-section of the Pillar 3 disclosure is to evidence the UK Regulated Entities' related governance approvals (the "Regulated Entities" in the context of SMCR being CMC Spreadbet Plc and CMC Markets UK Plc).

The Regulated Entities Boards are comprised of the CEO, Deputy CEO and CFO, further, these individuals have also been approved by the FCA to undertake the relevant Senior Management Functions at each of the Regulated Entities.

As directors these individuals are responsible, among other things, for the leadership, purpose, direction and success of the Regulated Entities within a framework of prudent and effective controls which enable risk to be assessed and managed.

As Senior Managers under the FCA's Senior Managers and Certification Regime (the "SMCR") they are responsible for the Regulated Entities' business functions and activities in line with the relevant prescribed and other responsibilities included within their respective Statements of Responsibilities ("SoRs") and under the SMCR generally.

All of the Senior Managers have a responsibility within their SoRs to attend and take part in collective Board decisions, including voting and providing input and challenge, and ensuring that relevant Boards are appropriately informed of relevant matters, and fostering an open and inclusive discussion which challenges Senior Management, as appropriate. Additionally, there is a statutory duty of responsibility on all Senior Managers to take reasonable steps to prevent regulatory breaches in the areas of the firm for which they are responsible.

Further, Lord Peter Cruddas, as CEO, within the SMF 1 category, is the person with responsibility, under the immediate authority of the governing body, for the conduct of the whole of the business and for ensuring that firm financial controls, reporting and systems of risk management are robust and defensible in conjunction with the Executive Directors.

The Management Responsibilities Map of the Regulated Entities ("the MRM") provides an overview of how the firm is managed and governed. The MRM has been compiled to assist with the implementation of, and ongoing compliance with, the SMCR.

Other individuals have dedicated Senior Management Function ("SMF") responsibilities in relation to the Regulated Entities. Board papers presented to the Regulated Entities and CMC Markets PLC Boards pertaining to Regulated Entity Senior Management Function matters will have been drafted at the direction of, or with the assistance of, the corresponding Senior Manager, consistent with the MRM.

The Regulated Entity Boards' and Senior Management consideration of the Pillar 3 disclosure was held on 29 September 2021. The Regulated Entities Boards' consideration focussed on the contents of the Pillar 3 disclosure as applied to the Regulated Entities respectively and was approved by each of the Regulated Entity Boards.

The Group Board considered and approved the Pillar 3 disclosure on 29 September 2021.

2.2 Risk appetite statement

As set out in the Strategic Report on page 16 of the CMC Markets plc 2021 annual report and financial statements the Group has a focus on three core strategic objectives which all contribute to acquiring and retaining such clients:

- Increasing the client base in established markets: the established markets of the UK, Australia and Germany generate the majority of the Group's revenue.
- Client journey optimisation: Mobile channels present opportunities for the Group to attract new clients and retain existing clients more efficiently by adopting a highly digital and targeted approach to the client journey.
- Institutional offering: Through our API offering (electronic connectivity to the CMC Markets platform for institutions), white label (branded) and grey label (unbranded) propositions clients have access to our award-winning trading technology, low latency price construction and execution and CMC liquidity solutions.

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

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

Risks to CMC Markets

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

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

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

- Acquisitions and disposals risk;
- Strategic / business model risk;
- Preparedness for regulatory change risk;
- Reputational risk;
- Credit and counterparty risk;
- Insurance risk;
- Tax and financial reporting risk;
- Liquidity risk;
- Market risk;
- Business change risk;
- Business continuity and disaster recovery risk;
- Financial crime risk;
- Information and data security risk;
- Information technology and infrastructure risk;
- Legal (commercial / litigation) risk;
- Operations (processing) risk;
- Procurement and outsourcing risk;
- People risk;
- Regulatory and compliance risk;
- Conduct risk; and
- Client money segregation risk.

Further information is available on pages 39 to 45 and note 30 (pages 131 to 138) of the CMC Markets plc 2021 annual report and financial statements and in section 4 of this document.

3. Capital resources

Table 2: Regulatory capital

£m	31 March 2021	31 March 2020
Shareholders' equity as per audited financial statements	**400.5**	**282.9**
Less; foreseeable dividends	(62.3)	(35.2)
Less: Intangible assets	(10.3)	(4.6)
Less: deferred tax assets that rely on future profitability	(0.0)	(6.4)
Common Equity Tier 1 Capital	**327.9**	**236.7**
Tier 2 capital	–	–
Total Regulatory Capital/Own Funds	**327.9**	**236.7**
Total risk exposure		
Operational risk capital requirement (ORCR)	492.1	353.3
Market risk capital requirement (MRCR)	776.5	351.7
Credit risk capital component (CRCC)	287.8	288.7
Counterparty risk capital requirement (CRCR)	39.1	24.9
Total Risk Exposure	**1,595.5**	**1,018.6**
CET1 Capital ratio (regulatory minimum: 4.5%)	**20.5%**	**23.2%**
Surplus(+)/Deficit(-) of CET1 capital	256.1	190.9
T1 Capital ratio (regulatory minimum: 6.0%)	**20.5%**	**23.2%**
Surplus(+)/Deficit(-) of T1 capital	232.2	175.6
Total capital ratio (regulatory minimum: 8.0%)	**20.5%**	**23.2%**
Surplus(+)/Deficit(-) of total capital	200.2	155.2

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

3.1 Capital management

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

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

Further information is available on page 138 of the CMC Markets plc 2021 annual report and financial statements.

3.2 Common Equity Tier 1 Capital

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

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

3.3 Tier 2 Capital

The Group does not have Tier 2 Capital.

3.4 Internal Capital Adequacy Assessment Process ("ICAAP")

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

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

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

The ICAAP is reviewed by the FCA, who set the Individual Capital Guidance ("ICG") capital requirements for the Group as part of its Supervisory Review and Evaluation Process ("SREP"). The ICG gives guidance on the amount and quality of capital resources that the FCA believes the firm should hold under the overall financial adequacy rule.

3.5 Leverage ratio

Credit institutions are required by the PRA to have a minimum leverage ratio requirement of 3.25%, which is defined as the ratio of Tier 1 capital to total exposures, although no such defined threshold exists for investment firms.

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

Table 3: Leverage ratio

£m	31 March 2021	31 March 2020
Total audited assets	577.6	488.0
Derivatives: Add-on Mark-to-Market Method	178.3	61.6
Exclusion of items already deducted from Tier 1 capital	(13.1)	(11.0)
Exposure measure after regulatory adjustments	**742.8**	**538.6**
Tier 1 capital	327.9	236.7
Leverage ratio	**44.1%**	**43.9%**

4. Principal risks

The Group's principal risks in view of its key business objectives are outlined in this section.

The Group's ICAAP review document is prepared under the requirements set out in the FCA Rulebook in accordance with CRD IV. A key purpose of an ICAAP review document is to inform a firm's board of the ongoing assessment of the firm's risks, how the firm intends to mitigate those risks, and how much current and future capital is necessary to hold against those risks. This is achieved by considering potential stresses as well as mitigating factors.

4.1 Credit risk

Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due. Credit risk is divided into Credit, Counterparty and Settlement risk. Below are the channels of credit risk the Group is exposed through:

- Financial Institutions ("FIs");
- Client; and
- Other items*.

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

Financial Institution credit risk

The Group has relationships with a number of counterparties that provide prime brokerage and/or banking services (e.g. cash accounts, foreign exchange trading, credit facilities, custodian services, etc.).

FI credit risk can be felt in the following ways:

- For FIs used as a bank and those as a broker, the Group does not receive the funds the FIs hold on the Group's account.
- For FIs used as a prime broker, a default will result in a loss of any unrealised profits and could cause the need to re-hedge at a different broker at a different price.
- For FIs used as a cryptocurrency counterparty, the loss of physical assets.

To mitigate or avoid a credit loss:

- The Group maintains, where practical, a range of relationships to reduce over-reliance on a single FI – as detailed in the Group Counterparty Concentration Risk Policy.
- The Group monitors the credit worthiness of the Institutions that is exposed to and reviews counterparties at least annually – as detailed in the Group Hedge Counterparty Selection Policy.

For more information see note 30 (pages 131 to 138) of the CMC Markets plc 2021 annual report and financial statements.

Client counterparty risk

The Group's CFD and spread bet business operates a real-time mark-to-market leveraged trading facility where clients are required to lodge collateral against positions, with any profits and losses generated by the client credited and debited automatically to their account. As with any leveraged product offering, there is the potential for a client to lose more than the collateral lodged.

Client counterparty risk captures the risk associated with a client defaulting on its obligations due to the Group. As the Group does not offer most of its retail clients credit terms and has a robust liquidation process, client counterparty risk will in general only arise when markets and instruments gap and the movement in the value of a client's leveraged portfolio exceeds the value of equity that the client has held at the Group leaving the client account in deficit.

"Negative balance protection" accounts do not pose counterparty risk to the Group as the maximum loss for this account type is limited to their account value.

The client counterparty risk capital requirements are calculated under CRR Title II, Chapter 6, Article 274, Mark to Market Method.

Further information is available in note 30 (pages 131 to 138) of the CMC Markets plc 2021 annual report and financial statements.

Credit exposures

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

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

31 March 2021 (£m)	Accounting balance sheet per published financial statements	Balance sheet per regulatory scope of consolidation	Regulatory adjustments: Reclassification	Regulatory adjustments: Capital deduction	Credit exposure	Risk weighted exposure
Intangible assets	10.3	10.3	-	(10.3)	-	-
Property, plant and equipment	26.1	26.1	-	-	26.1	26.1
Deferred tax assets	6.4	6.4	-	-	6.4	15.9
Financial investments	-	-		-	-	-
Trade and other receivables	1.8	1.8		-	1.8	1.8
Total non-current assets	**44.6**	**44.6**	**-**	**(10.3)**	**34.3**	**43.8**
Trade and other receivables	127.1	127.1	(0.6)	-	126.5	126.5
Derivative Financial instruments	3.2	3.2	(2.7)	-	0.5	0.1
Current tax recoverable	1.7	1.7	-	-	1.7	1.7
Financial investments	28.1	28.1	-	-	28.1	-
Amount due from brokers	253.9	253.9	0.6	-	254.5	91.9
Cash and cash equivalents	118.9	118.9	-	-	118.9	23.8
Total current assets	**532.9**	**532.9**	**(2.7)**	**-**	**530.2**	**244.0**
Total assets	**577.5**	**577.5**	**(2.7)**	**(10.3)**	**564.5**	**287.8**

The following table analyses the Group's credit risk exposure as at 31 March 2021.

Table 5: Credit exposures by regulatory asset class (CRCC)

Regulatory exposure asset class 31 March 2021 (£m)	Credit exposure	Risk weighted exposure
Central government	36.2	17.7
Institutions	322.8	64.6
Corporates	51.1	51.1
Retail	74.8	74.8
Other items	79.6	79.6
	564.5	**287.8**

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

Table 6: Credit exposures – analysis by geography

Regulatory exposure asset class 31 March 2021 (£m)	UK & IR	Europe	APAC & Canada	Total
Central government	30.9	0.2	5.1	36.2
Institutions	256.1	15.1	51.6	322.8
Corporates	51.1	-	-	51.1
Retail	1.1	–	73.7	74.8
Other items	39.1	1.9	38.6	79.6
	378.3	**17.2**	**169.0**	**564.5**

Table 7: Credit exposures – analysis by maturity

Regulatory exposure asset class 31 March 2021 (£m)	< 3 months	3 Months to 1 year	1 to 5 years	> 5 years or Undated	Total
Central government	-	28.1	-	8.1	36.2
Institutions	322.8	-	-	-	322.8
Retail	74.8	-	-	-	74.8
Corporates	51.1	-	-	-	51.1
Other items	14.7	1.7	1.4	61.8	79.6
	463.4	**29.8**	**1.4**	**69.9**	**564.5**

Past due amounts and impairment

The Group establishes specific provisions against debts due from clients where the Group determines that it is probable that it will be unable to collect all amounts owed in accordance with contractual terms of the client's agreements. The Group works efficiently to minimise the effects of client debts on the Company's profit and loss. Client debts are managed very early in their life cycle in order to minimise the likelihood of them becoming doubtful debts or of being written off. There are no debts past due which have not been impaired.

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

Regulatory exposure asset class 31 March 2021 (£m)	Impaired	Specific and general credit risk adjustments	Charges for specific and general credit risk adjustments during the financial year
Central government	-	-	-
Institutions	-	-	-
Retail	9.1	(7.7)	(3.0)
Other items	-	-	-
	9.1	(7.7)	(3.0)

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

31 March 2021 (£m)	UK & IR	Europe	APAC & Canada	Total
Impaired Items	6.7	0.4	2.0	9.1
Specific and general credit risk adjustments	(5.6)	(0.3)	(1.8)	(7.7)
	1.1	0.1	0.2	1.4

Table 10: Specific and general credit risk adjustments

£m	Amount
At 1 April 2020	5.8
Charge for specific and general credit risk adjustments during the financial year	3.0
Amounts written off	(1.1)
At 31 March 2021	7.7

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

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

Credit quality step	Long-term credit rating	Risk weight	Exposure (£m)
1	AAA to AA-	20%	55.9
2	A+ to A-	20%	144.0
3	BBB to BBB-	20%	119.6
4	BB+ to BB-	50%	-
5	B+ to B-	50%	-
6	CCC+ and below	150%	-
Unrated	-	100%	54.4
			373.9

4.2 Liquidity risk

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

The Group has access to own funds, title transfer client funds and committed banking facilities, as described on page 36 and note 30 (pages 131 to 138) of the CMC Markets plc 2021 annual report and financial statements.

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

Risk is mitigated by:

- The provision of timely daily, weekly and monthly liquidity reporting and real-time broker margin requirements to enable strong management and control of liquidity resources;
- A committed bank facility of up to £55.0 million to meet liquidity obligations to broker counterparties in the event that the Group does not have sufficient access to its own cash; and
- A formal Contingency Funding Plan ("CFP") is in place that is designed to aid senior management to assess and prioritise actions in a liquidity stress scenario.

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

For more information see note 30 (pages 131 to 138) of the CMC Markets plc 2021 annual report and financial statements.

Core liquidity risks

Liquidity risks may arise in the following core areas:

Increase in broker margin requirements

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

Counterparty failure

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

Withdrawal of committed funding facility

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

Asset encumbrance

The tables below disclose the Group's encumbered and unencumbered assets as at 31 March 2021 based on guidance from the European Banking Authority.

Table 12: Asset encumbrance

31 March 2021 (£m)	Carrying amount of encumbered assets	Carrying amount of unencumbered assets
Loans on demand	184.8	280.2
Debt securities : issued by general governments	-	28.0
Other assets	28.7	55.8
	213.5	**364.0**

4.3 Market risk

Market risk is defined as the risk that the value of our residual portfolio will decrease due to the change in market risk factors. The three standard market risk factors are price moves, interest rates and foreign exchange rates.

Mitigation of market risk

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

- **Natural mitigation of concentration**
  The Group acts as a market maker in over 10,000 instruments, specifically equities, equity indices, commodities, treasuries, foreign exchange and cryptocurrencies. Due to the high level of notional turnover there is a high level of internal crossing and natural aggregation across instruments and asset classes to mitigate significant single instrument concentration risk within the portfolio.
- **Natural aggregation**
  In the year ended 31 March 2021, the Group traded with 73,591 clients. This large international client base has a diverse range of trading strategies resulting in the Group enjoying a high degree of natural aggregation between clients. This "portfolio effect" leads to a significant reduction in the Group's net market risk exposure.
- **Ease of hedging**
  The Group predominantly acts as a market maker in linear, highly liquid financial instruments in which it can easily neutralise market risk exposure through its prime broker ("PB") arrangements. In order to avoid over-reliance on one arrangement the Group policy is to have two PBs per asset class. For instruments where there is no equivalent underlying market (e.g. Countdowns) the Group controls its risk through setting low position/exposure limits. This is further augmented by dealer monitoring and intervention, which can take the form of restricting the size offered or, if deemed necessary, restricting the clients' ability to take a position in an instrument.

Market risk exposures are managed in accordance with the Group's Risk Appetite Statement and Group Risk Management Framework to ensure that the Group has sufficient capital resources to support the calculated market risk capital requirement as well as staying within the risk appetite. The Group manages this component under notional position limits that are set on an instrument and asset class level with overarching capital-based limits.

Client exposures can vary significantly over a short period of time and are highly dependent on underlying market conditions. The Group's own funds requirement ("OFR") is calculated as per the CRR. This is illustrated in the following table:

Table 13: Analysis of Group's OFR

£m	31 March 2021	31 March 2020
Asset class		
Consolidated equities	29.5	15.7
Commodities	7.4	4.3
Fixed income and interest rates	1.0	0.4
Foreign exchange	18.1	7.3
Cryptocurrencies	6.1	0.4
	62.1	**28.1**

For further information see note 30 (pages 131 to 138) of the CMC Markets plc 2021 annual report annual report and financial statements.

4.4 Interest rate risk on the non-trading book

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

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

The sensitivity analysis performed is based on a reasonable and possible move in the floating rate by 0.5% upwards and 0.25% downwards. This is in line with the movement used for the year ended 31 March 2020.

This is summarised in the below table and reflects the Group's view that in the current economic environment, interest rate volatility is unlikely to have a significant impact on the profits of the Group.

Changes in interest rate variables result in a decrease/increase in the fair value of fixed rate financial assets classified as available for sale. This has no material impact on the Group's equity.

Table 14: Interest rate movement – non-trading book

31 March 21 (£m)	Absolute increase	Absolute decrease
Impact of	**0.50% change**	**0.25% change**
Profit after tax	1.5	(0.7)
Equity	1.5	(0.7)

4.5 Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal and regulatory risk.

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

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

Risk mitigation measures for key risks are in place to control exposure within Board-approved risk appetite levels. Further information can be found on pages 37 to 45 of the CMC Markets plc 2021 annual report and financial statements.

Principal operational risks

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

Risk Description Management and mitigation

Risk	Description	Management and mitigation
Business change risk	The risk that business change projects are ineffective, fail to deliver stated objectives, or result in resources being stretched to the detriment of business-as-usual activities.	• Governance process in place for all business change programmes with Executive and Board oversight and scrutiny. • Key users engaged in development and testing of all key change programmes. • Significant post-implementation support, monitoring and review procedures in place for all change programmes. • Strategic benefits and delivery of change agenda communicated to employees.
Business continuity and disaster recovery risk	The risk that a business continuity event or system failure results in a reduced ability or inability to perform core business activities or processes.	• Multiple data centres and systems to ensure core business activities and processes are resilient to individual failures • Dedicated alternate office sites for Tier 1 offices. Remote access systems to enable staff to work from home or other locations in the event of a disaster recovery or business continuity requirement. • Periodic testing of business continuity processes and disaster recovery. • Robust incident management processes and policies to ensure prompt response to significant systems failures or interruptions.
Financial crime risk	The risk that the Group is not committed to combatting financial crime and ensuring that our platform and products are not used for the purpose of money laundering, sanctions evasion or terrorism financing.	• Adherence with applicable laws and regulations regarding Anti-Money Laundering ("AML"), Counter Terrorism Financing ("CTF"), Sanctions and Anti-Bribery & Corruption is mandatory and fundamental to our AML/CTF framework. We have strict and transparent standards and we continuously strengthen our processes to ensure compliance with applicable laws and regulations. CMC Markets reserves the right to reject any client, payment, or business that is not consistent with our risk appetite. This risk is further mitigated by: • Establishing and maintaining a risk-based approach towards assessing and managing the money laundering and terrorist financing risks to the Group; • Establishing and maintaining risk-based know your customer ("KYC") procedures, including enhanced due diligence ("EDD") for those customers presenting higher risk, such as politically exposed persons ("PEPs"); • Establishing and maintaining risk-based systems for surveillance and procedures to monitor ongoing customer activity; • Procedures for reporting suspicious activity internally and to the relevant law enforcement authorities or regulators as appropriate; • Maintenance of appropriate records for the minimum prescribed record keeping periods; • Training and awareness for all employees; • Provision of appropriate MI and reporting to senior management of the Group's compliance with the requirements; and • Oversight of Group entities for financial crime in line with the Group AML/CTF Oversight Framework.

Risk	Description	Management and mitigation
Information and data security risk	The risk of unauthorised access to or external disclosure of client or Company information, including those caused by cyber attacks.	• Dedicated information security and data protection resource/ expertise within the Group. • Technical and procedural controls implemented to minimise the occurrence of information security and data protection breaches. • Access to information only provided on a "need-to-know" and "least privilege" basis consistent with the user's role and also requires the appropriate authorisation. • Regular system access reviews implemented across the business.
Information technology and infrastructure risk	The risk of loss of technology services due to loss of data, system or data centre or failure of a third party to restore services in a timely manner.	• Continuous investment in increased functionality, capacity and responsiveness of systems and infrastructure, including investment in software that monitors and assists in the detection and prevention of cyber attacks. • Software design methodologies, project management and testing regimes to minimise implementation and operational risks. • Constant monitoring of systems performance and, in the event of any operational issues, changes to processes are implemented to mitigate future concerns. • Operation of resilient data centres to support each platform (two in the UK to support Next Generation and two in Australia to support stockbroking). • Systems and data centres designed for high availability and data integrity enabling continuous service to clients in the event of individual component failure or larger system failures. • Dedicated Support and Infrastructure teams to manage key production systems. Segregation of duties between Development and Production Support teams where possible to limit development access to production systems.
Legal (commercial / litigation) risk	The risk that disputes deteriorate into litigation.	• Compliance with legal and regulatory requirements including relevant codes of practice. • Early engagement with legal advisers and other risk managers. • Appropriately managed complaints which have a legal/litigious aspect. • An early assessment of the impact and implementation of changes in the law.
Operations (processing) risks	The risk that the design or execution of business processes is inadequate or fails to deliver an expected level of service and protection to client or Company assets.	• Investment in system development and upgrades to improve process automation. • Enhanced staff training and oversight in key business processing areas. • Monitoring and robust analysis of errors and losses and underlying causes.
Procurement and outsourcing risk	The risk that third-party organisations inadequately perform or fail to provide or perform the outsourced activities or contractual obligations to the standards required by the Group.	• Responsibility for procurement, vendor management and general outsourcing owned by the Chief Financial Officer and Director of Operations under the Senior Manager and Certification Regime, with the accountability to ensure compliance to the Group procurement process and completion of key activities, based on the risk profile of the service required by the organisation. • Outsourcing only employed where there is a tactical gain in resource or experience, which is not available in house. • Due diligence performed on service supplier ahead of outsourcing being agreed. • Service level agreements in place and regular monitoring of performance undertaken.

Risk	Description	Management and mitigation
People risk	The risk of loss of key staff, having insufficient skilled and motivated resources available or failing to operate people-related processes to an appropriate standard.	The Board has directed that the Group maintains active People, Succession and Resource Plans for the Group and all key individuals and teams, which will mitigate some of the risk of loss of key persons. It will adopt policies and strategies commensurate with its objectives of: • attracting and nurturing the best staff; • retaining and motivating key individuals; • managing employee-related risks; • achieving a high level of employee engagement; • developing personnel capabilities; • optimising continuous professional development; and • achieving a reputation as a good employer with an equitable remuneration policy.
Regulatory and compliance risk	The risk of regulatory sanction or legal proceedings as a result of failure to comply with regulatory, statutory or fiduciary requirements or as a result of a defective transaction.	• Internal audit outsourced to an independent third-party professional services firm. • Effective compliance oversight and advisory/technical guidance provided to the business. • Comprehensive monitoring and surveillance programmes, policies and procedures designed by compliance. • Strong regulatory relations and regulatory horizon scanning, planning and implementation. • Controls for appointment and approval of staff holding a senior management or certified function and annual declarations to establish ongoing fitness and propriety. • Governance and reporting of regulatory risks through the Risk Management Committee, Group Audit Committee and Group Risk Committee. • Robust Anti-money laundering controls, client due diligence and sanctions checking.
Conduct risk	The risk that through our culture, behaviours or practices we fail to meet the reasonable expectations of our customers, shareholders or regulators.	• The Treating Customers Fairly ("TCF") and Conduct Committee is comprised of senior management and subject matter experts, it convenes regularly to evaluate and challenge the TCF MI alongside any emerging issues or incidents which could impact client fairness. It reports to the Board via the Risk Management Committee ("RMC") who are also charged with approving the TCF Policy.
Client money segregation risk	This is the risk that the Group fails to implement adequate controls and processes to ensure that client money is segregated in accordance with applicable regulations.	• The Client Money Review Group ("CMRG"), which reports into the RMC, is a fundamental part of the Group's client money governance and oversight procedures. The CMRG is chaired by the Chief Financial Officer, an FCA-approved person, who is responsible for overseeing the controls and procedures in place to protect client money. • The Committee is comprised of senior management from across the Group who oversee functions which impact client money. The CMRG forms a key part of the oversight of client money in addition to compliance, internal audit and PricewaterhouseCoopers LLP as external auditors.

5. Remuneration disclosure

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

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

5.1 Decision making process for determining remuneration policy

The Remuneration Committee (the "Committee") consists of the Group's Non-Executive Directors. Meetings are held at least twice a year and written Terms of Reference, approved by the Board are available on the Company's website: www.cmcmarketsplc.com/investors/corporate-governance/committees/. The main role and responsibility of the Committee are:

- To review and agree appropriate Remuneration Policies which comply with all relevant regulations;
- To review and set the remuneration of the Executive Directors and endorse the remuneration of the senior management team having regard to remuneration of the wider CMC workforce;
- To review and ensure that incentive payments to Executive Directors are linked to the achievement of stretching financial performance and both strategic and individual agreed objectives;
- To ensure that remuneration incentivises and retains key employees including the Executive Directors and senior management;
- To ensure that Executive remuneration is linked to the delivery of the long-term success of the Company;
- Have oversight of the operation of remuneration arrangements across the CMC group through regular review of 'management' information including gender related;
- To review any major changes to employee benefit structures, including new share schemes, and ensure that shareholders are consulted, and the required approval processes followed;
- To review the appropriateness of remuneration against the risk management strategy following advice from the Group Risk Committee; and
- To ensure all relevant regulations relating to Executive Director remuneration are adhered to.

The Remuneration Policies are designed to promote sound and effective risk management. The Remuneration Committee reviews and approves the Remuneration Policies for all employees, including for Material Risk Takers and senior risk and compliance employees, to help ensure pay arrangements encourage appropriate behaviour and compliance with the Company's risk appetite. For example, all employees receive a salary which reflects their market value, responsibilities and experience. An individual may only receive an annual incentive award if he / she operates within the risk appetite of the Company and has demonstrated appropriate behaviour. Key senior managers are eligible for consideration of Long-Term Incentive Plan ("LTIP") awards, with any vesting based on performance over at least two years.

The Committee has flexibility to adjust the formulaic outcome if the Company's recorded performance is not a genuine reflection of underlying business performance or if results were not achieved within the Company's risk appetite. Combined Incentive Plan ("CIP") awards are subject to malus and clawback for all participants in various circumstances, including a failure of risk management. The Chief Financial Officer is closely involved in the remuneration process to ensure that both the Remuneration Policies and outcomes reinforce compliance with the Company's risk appetite, including reporting independently to the Committee at least annually on compliance with the risk appetite, on any notable risk events and on the behaviour of the Material Risk Takers.

5.2 Code Staff Criteria

The FCA Remuneration Code requires the Group to identify individuals whose professional activities have a material impact on its risk profile (known as "Code Staff").

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

- Extent to which each individual has the ability and authority to make decisions that may impact on material areas of risk set out in CMC's internal risk documentation including: ICAAP, Risk Appetite Statement and Risk Management Framework;
- Reporting lines including but not limited to direct reporting line to the CEO and Executive Directors;
- Primary responsibilities: staff performing an FCA Senior Manager Function ("SMF") and certain Certification Functions ("CF") within CMC, i.e. Individuals whose professional activities have a material impact on the firms risk profile, including but not limited to those that meet the qualitative and quantitative criteria outlined in the Remuneration Code (staff who identify as Material Risk Takers ("MRT");
- Level of autonomy in role; and
- Level of earnings.

The Group has a policy on diversity as detailed on page 28 of the CMC Markets plc 2021 annual report and financial statements in accordance with CRR Article 435(2)(C).

5.3 Link between pay and performance

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

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

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

The variable remuneration element for the majority of employees who are not Executive Directors is an annual incentive awarded based on company and induvial performance. An LTIP may also be awarded to senior managers and key talent subject to continued employment and sustained performance.

For Executive Directors in the financial year ending 31 March 2021 the Group received shareholder approval for an amended Directors' Remuneration Policy as set out on page 66 to 73 of the CMC Markets plc 2021 Annual Report and Accounts. The Executive Directors are eligible to participate in the Group's Combined Incentive Plan which provides a performance based award aligned to the financial and strategic objectives of the business. The award is split into a cash award and share award. The share award vests in three tranches in years 3,4 and 5 and vesting is subject to sustained performance. In respect of the current CEO, Peter Cruddas, awards may be made under the cash element of the plan only.

All variable remuneration awards are also assessed against delivery of a mandatory risk objective and compliance with our Conduct policy standard, with the approach to annual salary reviews consistent across the Group. All employees are eligible to participate in the annual incentive award scheme or an equivalent scheme, with targets appropriate to their organisational level and business area. Key senior managers are also eligible for LTIP awards to further support long-term alignment with shareholder interests.

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

Design characteristics

Remuneration is delivered via a combination of fixed and variable elements, which includes base salary, pension and other benefits, an annual bonus and a long term incentive (for Directors, senior management and other identified staff only). For Executive Directors awards are made under the Combined Incentive Plan which provides for a cash bonus and a deferred share award based on performance criteria linked to the financial and longer-term strategic success of the business. The Remuneration Committee sets the criteria for making these awards each year along with assessing a performance underpin for the deferred share portion which is measured over a period of at least three years from the end of the year used to determine the amount of the award.

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

Executive Directors are required to build up a holding of 200% of base annual salary. Executive Directors will be required to build up to this level over a period of five years, starting from the date of our listing in 2016 for the Executive Directors who were in role at the time the 2018 Remuneration Policy was approved and from the date of appointment for any recruits since that time or in future. Executive Directors will be expected to retain at least 50% of shares vesting (net of tax) until the guideline level is achieved. For the purposes of satisfying the shareholding requirement, shares held by a connected person (e.g. a spouse) will be considered to be included.

A post-employment shareholding requirement will apply of 200% of base annual salary (or the actual shareholding at date of exit if lower) for a period of two years after leaving employment.

Ratio between fixed and variable remuneration

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

Main parameters and rationale for any variable component

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

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

Share Awards for Directors and other senior managers are subject to malus and clawback provisions.

5.4 Remuneration cost for Code Staff

For the year ending 31 March 2021 the aggregate remuneration in respect of Code Staff was as follows:

Table 15: Code staff aggregate remuneration for the year ended 31 March 2021 (£m)

	Executive directors		Code staff	
31 March 2021	**Number of recipients**	**Amount (£m)**	**Number of recipients**	**Amount (£m)**
Fixed remuneration FY21	4	1.5	20	2.9
Variable remuneration – Award FY21				
Cash	3	1.9	16	1.0
SIP (Matching and dividend) awards	2	0.0	8	0.0
Total		**1.9**		**1.0**
Severance payments FY21	0	0.0	0	0.0
Outstanding Deferred Remuneration				
Vested free shares	0	0.0	0	0.0

Notes to the table:

- Fixed remuneration: includes base salary and pension (super guarantee in Australia) and other benefits
- Variable remuneration – Cash: The total earned in cash in respect of performance during the year ended 31 March 2020 (Paid in FY21)
- Directors Remuneration is included in the 2021 annual report and financial statements p.62-85.

Code staff aggregate remuneration of EUR1m or more for the year ended 31 March 2021

One code staff member was paid in excess of EUR1m during the year ended 31 March 2021.

6. Further information

Should you have any queries, please contact:
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