
PILLAR 3 DISCLOSURE
IG Group Holdings plc | 2011

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PILLAR 3 DISCLOSURE

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1. OVERVIEW

1.1. INTRODUCTION

Pillar 3 disclosure is a requirement of the EU's Capital Requirements Directive (CRD), as implemented in the UK by the Financial Services Authority (FSA).

Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on firms' capital adequacy and risk assessment and control processes.

The Pillar 3 disclosures are in addition to minimum capital requirements (Pillar 1) and supervisory review process capital requirements (Pillar 2), also under the CRD.

FSA's Pillar 3 disclosure rules are contained in Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Information is disclosed by IG Group Holdings plc (IG Group) under these rules unless it is not applicable to IG Group or it is considered by IG Group's Risk Committee as being proprietary or confidential information.

Quantitative disclosures under BIPRU 11 are made as at 31 May 2011, with IG Group's current risk management framework.

1.2. SCOPE AND FREQUENCY OF DISCLOSURES

IG Group's Pillar 3 disclosures are made in respect of all entities that are consolidated in IG Group Holdings plc's Annual Report for the year ended 31 May 2011 and listed in Note 14 of that report. The same entities also form IG Group's UK Consolidation Group (as defined in FSA's BIPRU 8) which is subject to consolidated supervision by the FSA. IG Group's principal operating entities and their regulator(s) are shown in Table 1.

Following assessment of FSA's frequency of publication criteria (BIPRU 11.4.4), the Board expect that IG Group's Pillar 3 disclosures will be made on an annual basis and published on IG Group's corporate website (www.iggroup.com) as soon as practicable after the publication of IG Group Holdings plc's Annual Report.

IG Group's Pillar 3 disclosures are not subject to external audit unless they are equivalent disclosures to those prepared under IFRS and included in IG Group Holdings plc's Annual Report.

Table 1 – IG Group Holdings plc

Principal operating entities and regulators(s)

Entity	Regulator(s)
IG Index Limited	FSA, Australian Securities and Investments Commission (ASIC), Gambling Commission (GC).
IG Markets Limited	FSA, ASIC, Autorité des marchés financiers (France), Bundesanstalt für Finanzdienstleistungsaufsicht (Germany), Commissione Nazionale per le Società e la Borsa (Italy), Commission de Surveillance du Secteur Financier (Luxembourg), la Comisión Nacional del Mercado de Valores (Spain), Comissão do Mercado de Valores Mobiliários (Portugal), Finansinspektionen (Sweden), Autoriteit Financiële Markten (The Netherlands), New Zealand Securities Commission.
Extrabet Limited	FSA, GC.
Extrabet Financial Limited	GC.
IG Markets Securities Ltd	Financial Services Agency (Japan), Ministry of Economy, Trade and Industry.
IG Asia Pte Limited	Monetary Authority of Singapore.
Nadex Inc.	Commodity Futures Trading Commission.
IG Markets South Africa Limited	(FSB) Financial Services Board

There are no current or foreseen material practical or legal impediments to the transfer of capital resources or repayment of liabilities between IG Group and its subsidiary undertakings, other than restrictions due to regulatory capital requirements held by the above regulated entities.

Intra-group capital transferability is reviewed at least once every six months as part of IG Group's Internal Capital Adequacy Assessment Process (ICAAP) (see Section 3.4 below).

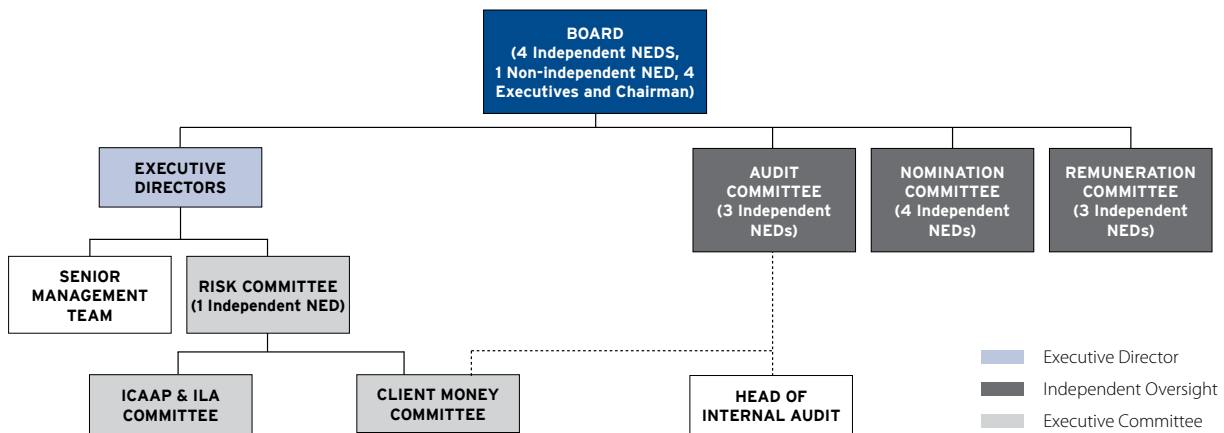
2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1. CORPORATE GOVERNANCE FRAMEWORK

IG Group's corporate governance structure is described in Chart 1 and the responsibilities of the Board of Directors, Audit Committee, Remuneration Committee, Nomination Committee, Risk Committee, ICAAP and ILA Committee and Client Money Committee are described below.

Chart 1 – IG Group Holdings plc

Corporate Governance Structure



Board of Directors (the Board)

The primary responsibilities of the Board include:

- approval of IG Group's long term objectives and strategy, including extension of IG Group's activities into new business or geographic areas
- establish the Group's risk appetite, review and challenge the content of the risk management framework
- approval of the annual operating and capital expenditure budgets and any material changes to them
- review performance in light of the group's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken
- any changes relating to the group's capital structure

Audit Committee (committee of the Board)

The duties of the Audit Committee broadly cover:

- financial reporting
- review effectiveness of internal controls and risk management systems
- whistleblowing and fraud
- internal audit
- external audit

Nomination Committee (committee of the Board)

The duties of the Nomination Committee include:

- regularly reviewing the structure, size and composition required of the Board compared to its current position and making recommendations to the Board with regard to any changes
- giving full consideration to succession planning for directors and other senior executives taking into account the challenges and opportunities facing the company and the skills and expertise needed
- identifying and nominating, for approval of the Board, candidates to fill board vacancies as and when they arise

Remuneration Committee (committee of the Board)

The duties of the Remuneration Committee include:

- determining and reviewing periodically the remuneration policy for consistency with effective risk management across the group
- determining and agreeing the framework for the remuneration of the Chief Executive, Chairman and executive directors

2. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Committee (executive committee)

The responsibilities of the Risk Committee include:

- reviewing the overall level of risk faced by the Group whilst paying due consideration to the interests and obligations of Group companies, shareholders and customers
- recommend overall risk appetite, tolerance, scenarios and planning to the Board

ICAAP and ILAA Committee (executive committee)

The responsibilities of the ICAAP and ILAA Committee include:

- ensuring that the ICAAP and ILA are robust assessments of capital and liquidity adequacy
- ensuring that the ICAAP correctly assesses IG Group's process for attributing internal capital to risks ("Pillar 2 regulatory capital")
- ensuring that the ICAAP and ILA review how stress testing results have been used in IG Group's decision-making process

Client Money Committee (executive committee)

The responsibilities of the Client Money Committee include:

- ensuring that the client money regulations are being adhered to in all IG Group entities
- reviewing and evaluating all the client money controls and procedures

2.2. IG GROUP'S RISK APPETITE STATEMENT (RAS)

IG Group aims to increase shareholder value through the pursuit of the following business objectives:

- maintaining market leading positions
- expanding global reach
- delivering product and technology innovation
- continuing high standards of client service

The strategies in place to achieve these objectives are explained in more detail in pages 8-17 of the IG Group Holdings plc's Annual Report.

The Board aims to maintain a conservative risk/reward profile, therefore key risk categories are identified and key risk indicators have been developed and monitored based on the following risk appetite statements:

- 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 in the Group by shareholders, clients, the staff and business partners
- the Board will adopt measures to minimise regulatory risk
- the Board will review the risk profile of strategic projects against the risk profile of the core business

The key risk indicators (KRIs) monitoring key policy limits are reported to IG Group's Risk Committee and Board on at least bi-monthly basis with any breaches reported immediately. KRIs include:

- liquidity risk
- credit risk
- market risk
- operational risk
 - regulatory risk
 - third party dependency
 - breakdown in process
 - information security
 - IT Development
 - IT system outage
 - reputational risk
 - fraud
 - competition/strategy
 - litigation
 - people risk

The risk appetite is communicated across the organisation through the risk management framework as described in Table 2.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Table 2 – IG Group Holdings plc

IG's risk Management process

Framework element	Link to risk appetite	IG's Risk Culture
Risk governance	IG's Board approves the RAS and ensures it is embedded in IG's risk policies, delegated authorities and Remuneration Policy and also ensures clear communication of IG's risk culture to IG's organisation.	
Risk assessment	IG identifies new and emerging risks through the firm wide completion of Risk Registers.	
Risk quantification and aggregation	IG undertakes regular quantification and aggregation of risk to prioritise focus of risk management and control.	
Monitoring and reporting	Monitoring and reporting of performance against risk-based limits based on risk appetite.	
Risk and control optimisation	Framework of controls calibrated in line with risk appetite.	

A key on-going process of identifying, evaluating and managing significant risks using Risk Registers is co-ordinated by IG Group's Risk Department. IG Group functional heads are responsible for maintaining these Risk Registers to ensure that they are updated regularly and include appropriate action plans for improving controls to mitigate risks.

Risks on the Risk Registers are also standardised using a set of impact and likelihood criteria which results in the calculation of an inherent risk rating for each identified risk. The inherent risk rating is mitigated to derive a residual risk rating which is compared against IG Group's risk appetite rating (for each specific risk) to identify any control gaps.

3. CAPITAL RESOURCES

3.1. TOTAL CAPITAL RESOURCES SUMMARY

IG Group's total capital resources and capital resources requirement as at 31 May 2011 are shown in Table 3 below.

Capital resources represent 295% of the Pillar 1 capital resources requirement as at 31 May 2011 (2010: 338%), calculated on the audited results for the financial year.

Table 3 – IG Group Holdings plc

Regulatory Capital (£m)

Year ended 31 May:	2011 ACTUAL	2011 ACTUAL
Equity share capital, share premium and audited reserves	380.1	475.6
Core Tier 1 capital	380.1	475.6
Less: intangible assets	(115.3)	(252.5)
Less: treasury shares	(1.2)	(1.0)
Total Tier 1 capital after deductions	263.6	222.1
Tier 2 capital (upper)	-	-
Total Tier 1 and Tier 2 capital	263.6	222.1
Total Capital Resources (CR)	263.6	222.1
Pillar 1 (P1)		
Credit risk capital component (CRCC) - non-trading book	(4.8)	(1.8)
Counterparty risk capital requirement (CRCR)	(10.7)	(10.6)
Total Credit risk	(15.5)	(12.4)
Operational risk capital component (ORCC)	(46.9)	(38.7)
Market risk capital requirement (MRCR)	(27.1)	(14.6)
Total Pillar 1 Capital Resources Requirement (CRR)	(89.5)	(65.7)
Excess CR over CRR	174.1	156.4
% CR to CRR	295%	338%

3.2. TIER 1 CAPITAL

Tier 1 capital comprises equity share capital, share premium and audited reserves.

Intangible assets that are deducted from Tier 1 capital primarily relate to goodwill resulting from a management buy-out transaction in 2003 and intangible assets arising on consolidation (including goodwill) following the acquisition of Nadex Inc. In the year ended 31 May 2011, the intangible assets decreased due to the impairment of goodwill and customer relationships associated with the acquisition of the Group's Japanese business, IG Markets Securities Limited (formerly FXOnline).

In addition, dividends are deducted from Core Tier 1 capital. IG Group is highly cash generative and has a dividend policy with a target dividend payout ratio of 60% of adjusted profits after tax.

3. CAPITAL RESOURCES (continued)

3.3. TIER 2 CAPITAL

Tier 2 capital comprises redeemable preference share capital of £40,000 (not shown in Table 3 as the balance is de minimis).

The redeemable preference shares are entitled to a fixed noncumulative dividend of 8% paid in preference to any other dividend and have no voting rights, except that they are entitled to vote should IG Group fail to pay any amount due on redemption of the shares.

3.4. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

IG Group undertakes 6 monthly or more frequently if required, an Internal Capital Adequacy Assessment Process (ICAAP), which is an internal assessment of capital requirements.

The outcome of the ICAAP is the Internal Capital Assessment (ICA), which is approved by IG Group's Board and determines the amount of any risk-based capital resources requirement (Pillar 2) that IG Group identifies over a three to five year planning horizon, in addition to the Pillar 1 requirements.

The ICA is reviewed on an on-going basis by IG Group's ICAAP and ILAA Committee to ensure all group-wide changes to IG Group's risk profile are assessed and reported to IG Group's Board.

The ICA is subject to FSA review and the FSA has set Individual Capital Guidance (ICG) as part of its Supervisory Review and Evaluation Process. The ICG is guidance given to a firm about the amount and quality of capital resources that the FSA believes the firm should hold under the overall financial adequacy rule. The FSA has made it clear that each ICG remains a confidential matter between the firm and the FSA.

4. IG GROUP'S PRINCIPAL BUSINESS RISKS

The risks outlined below are those that IG Group believes have the potential to have a significant detrimental impact on its ability to achieve its business objectives.

IG Group's principal business risks are stress-tested, both on an individual and combined scenario basis, as part of IG Group's Internal Capital Adequacy Assessment Process (ICAAP).

4.1. CREDIT RISK

Credit risk is the risk that a counterparty to IG Group fails to perform its obligations which results in financial loss for IG Group. Adverse changes in the credit quality of individual clients or financial institutional counterparties could affect the recoverability of IG Group's assets and therefore its financial performance.

These risks are controlled by IG Group's Risk Department with credit risk management metrics and KRIs reported to the Board and the Risk Committee.

Table 3 (in Section 3.1 above) shows IG Group's total credit risk requirement by credit risk for the non-trading book items and counterparty risk for the trading book requirements. The non-trading book credit risk capital component (CRCC) of £4.8m (2010: £1.8m) applies to requirements on IG Group's tangible assets, prepayments, non-trading book debtors own funds at bank and deferred tax assets. IG Group uses the BIRPU 3 Standardised Approach to calculate its Pillar 1 credit risk requirement.

IG Group's management of its trading book credit risk exposures i.e. client and institutional credit risk exposures is described below.

Client counterparty credit risk

IG Group operates a real-time mark-to-market trading platform with client profits and losses being calculated continuously.

Client credit risk principally arises where client funds deposited with IG Group (including margin and free equity) are insufficient to cover losses incurred upon liquidation of positions. In addition, a relatively small number of clients are granted credit limits to cover open losses and margin as described below.

IG Group has a formal credit policy which determines the financial and experience criteria which a client must satisfy before opening an account.

Clients, unless offered credit facilities, are required to deposit cash margins before they can open a market position and are required to pay variation margin to cover any potential losses on their trading accounts. The payment of margin by clients, and the operation of IG Group's automated close-out procedures mitigate significantly against client counterparty risk.

IG Group also accepts collateral from some clients in the form of equities or other securities which mitigate IG Group's credit risk and the value of all such assets are individually assessed and discounted for expected market risk.

The credit risk associated with each client is assessed at the account opening stage and appropriate limits are allocated to their account. IG Group's Credit Department also conducts periodic reviews of the limits for each client. Subsequent to this, before approval of a new trade on a client's account, IG Group's client trading platform performs a pre-deal credit check to ensure that a client has sufficient funds available.

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 the client has an open position in.

The majority of client positions are subject to IG Group's automated close-out process (or are limited risk accounts). Clients subject to this automated close-out process are automatically closed out if the initial margin is eroded and the account is not re-funded by the client.

Other clients (i.e. those not subject to IG Group's automated close-out process), and whose funds deposited with IG Group are insufficient to cover any losses incurred, are requested to deposit additional funds up to at least the required margin level and may also be restricted from increasing their market positions.

If these clients' intra-day losses subsequently increase such that their total client funds fall below the specified liquidation level (i.e. the level where funds deposited with IG Group (margin and free equity) by a client are insufficient to cover the client's losses), the position is subject to same-day liquidation.

4. IG GROUP'S PRINCIPAL BUSINESS RISKS (continued)

Financial institution counterparty credit risk

Financial institution counterparty credit risk is managed in accordance with IG Group's 'Counterparty Credit Management Policy'. IG Group uses derivative instruments to hedge its exposure to market risk. The counterparty credit risk is the risk that a counterparty to a derivative instrument held by IG Group could default.

It is IG Group's policy that all institutional counterparties holding client money accounts must maintain an investment grade rating. This is also the target minimum ratings for IG Group bank accounts not subject to client money protection, but in some operating jurisdictions it can be problematic to find a banking counterparty satisfying these minimum ratings requirements, although this risk is mitigated by ensuring balances held with these counterparties are minimised.

In addition, IG Group actively manages the credit exposure to each of its financial broking counterparties by typically only keeping minimum required balances at each broker. IG Group's bank and broker counterparties are also subject to an on-going internal credit review process.

Proposed internal credit limits for bank and broker counterparties are reviewed and approved by the Risk Committee and exposures are reported against these limits on a daily basis. To prevent over-dependency on any one broking counterparty, IG Group is committed to maintaining multiple brokers for each asset class and, where possible, IG Group negotiates for its funds to receive client money protection, which can reduce credit exposure.

When calculating the counterparty risk exposure values for financial derivatives, IG Group uses the CCR mark to market method (BIPRU 13.4) to calculate the potential future credit exposure.

Past due amounts and impairment

Amounts due from clients are considered past due from the date that positions are closed and are aged from that date. Impairments are recorded where IG Group determines that it is probable that it will be unable to recover all amounts owing according to contractual terms.

If the recoverable amount of a credit exposure is estimated to be less than its carrying amount, the carrying amount of the credit exposure 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 recoverable amount of the credit exposure since the last impairment loss was recognised. If that is the case, the carrying amount is increased to the recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, had no impairment loss been recognised for the credit exposure in prior years. A reversal of an impairment loss is recognised as income immediately.

Credit Exposures

Table 4 analyses the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the financial year to 31 May 2011 broken down by different types of trading book credit exposure classes.

For the purposes of the Pillar 3 disclosures, IG Group does not treat client money accounts held under trust for its clients in client money bank accounts as credit exposures of IG Group as defined under FSA rules.

4. IG GROUP'S PRINCIPAL BUSINESS RISKS

(continued)

Table 4 – IG Group Holdings plc

Analysis of credit exposures by regulatory assets class (£m)

Regulatory exposure asset class	Exposure at 31 May 2011	Average exposure - financial year ending 31 May 2011
Institutions	392.3	361.2
Corporates	0.0	0.2
Retail	1.8	1.6
Past due items	0.5	0.6
	394.6	363.6

Table 5 analyses the trading book counterparty risk capital requirement in respect of the above credit exposures:

Table 5 – IG Group Holdings plc

Analysis of trading book counterparty risk capital requirement (£m)

Regulatory exposure asset class	Exposure at 31 May 2011	Exposure at 31 May 2010
Institutions	6.4	6.5
Corporates	0.0	1.0
Retail	2.7	1.7
Past due items	1.6	1.4
	10.7	10.6

The counterparty risk capital requirements are calculated on potential future credit exposures (calculated under BIPRU 13.4 – CRR Mark to Market Method) which are in addition to the balance sheet credit exposures calculated under International Financial Reporting Standards.

Credit exposures by geographic distribution

Table 6 analyses the geographic distribution of trading book credit exposures:

Table 6 – IG Group Holdings plc

Geographic analysis of credit exposures (£m) as at 31 May 2011

Regulatory exposure asset class	UK	Europe (excluding UK)	Asia Pacific	Rest of World	Total
Institutions	105.8	178.2	79.9	28.4	392.3
Corporates	0.0	0.0	0.0	0.0	0.0
Retail	1.5	0.1	0.2	0.0	1.8
Past due items	0.5	0.0	0.0	0.0	0.5
	107.8	178.3	80.1	28.4	394.6

4. IG GROUP'S PRINCIPAL BUSINESS RISKS

(continued)

Credit exposures by maturity

Table 7 analyses the residual maturity breakdown of trading book credit exposures:

Table 7 – IG Group Holdings plc

Analysis of credit exposures by maturity (£m) as at 31 May 2011

Regulatory exposure asset class	< 3 months	3 months - 1 year	1 to 5 years	> 5 years	Total
Institutions	392.3	0.0	0.0	0.0	392.3
Corporates	0.0	0.0	0.0	0.0	0.0
Retail	1.8	0.0	0.0	0.0	1.7
Past due items	0.5	0.0	0.0	0.0	0.5
	394.6	0.0	0.0	0.0	394.6

Credit exposures by past due and impairment amounts

Table 8 analyses by exposure class, the amount of impaired exposures and past due exposures, value adjustments and provisions and charges for value adjustments during the period.

Table 8 – IG Group Holdings plc

Credit exposures - analysis of impaired and past due exposures; value adjustments and provisions (£m) as at 31 May 2011

Regulatory exposure asset class	Impaired	Past due	Value adjustments and provisions	Charges for value adjustments during the financial year
Institutions	0.0	0.0	0.0	0.0
Corporates	0.4	0.0	(0.4)	0.0
Retail	19.0	0.0	(18.0)	(1.2)
Past due items	0.0	0.5	0.0	0.0
	19.4	0.5	(18.4)	(1.2)

Past due and impairment amounts by geographic distribution

Table 9 discloses the amount of IG Group's impaired exposures and past due exposures, provided separately, broken down by geographical areas including the amounts of value adjustments and provisions related to each geographical area:

Table 9 – IG Group Holdings plc

Credit exposures - geographic analysis of impaired and past due exposures; value adjustments and provisions (£m) as at 31 May 2011

Category	UK	Europe (excluding UK)	Asia Pacific	Rest of World	Total
Institutions	17.0	1.7	0.7	0.0	19.4
Past due items	0.5	0.0	0.0	0.0	0.5
Value adjustments and provisions	(16.0)	(1.7)	(0.7)	0.0	(18.4)
	1.5	0.0	0.0	0.0	1.5

4. IG GROUP'S PRINCIPAL BUSINESS RISKS

(continued)

Value adjustments and provisions

Table 10 reconciles changes in value adjustments and provisions for impaired exposures, shown separately as well as value adjustments and recoveries recorded directly to the income statement for the year ending 31 May 2011:

Table 10 – IG Group Holdings plc

Value adjustments and provisions (£m)

Balance as at 01 June 2011	21.5
Charge for value adjustments during financial year	1.2
Amounts written off net of recoveries	(4.5)
Foreign exchange adjustment	0.2
Balance as at 31 May 2011	18.4

Credit exposures by credit rating

IG Group uses External Credit Assessment Institution (ECAI), Standard and Poor's (S&P) to determine the risk weight of rated counterparties in each standardised credit exposure class. S&P is an ECAI for the purposes of calculating risk weights under the FSA's Standardised Approach.

Table 11 analyses institutional credit exposures by S&P rating and credit quality step and risk weighting as at 31 May 2011:

Table 11 – IG Group Holdings plc

Institution credit exposure - credit quality steps and risk weighting (£m) - as at 31 May 2011

Credit quality step	Standard and Poor's long-term rating	Risk weight	Exposure
1	AAA to AA-	20%	104.2
2	A+ to A-	20%	278.5
3	BBB+ to BBB-	20%	6.6
4	BB+ to BB-	50%	0.3
5	B+ to B-	50%	0.1
6	CCC+ and below	150%	0.0
Unrated - non-default	-	100%	2.6
			392.3

IG Group has no other credit exposures rated by an ECAI.

4. IG GROUP'S PRINCIPAL BUSINESS RISKS (continued)

4.2. LIQUIDITY RISK

IG Group has no debt and does not use retail client funds to fund broker margin requirements. In addition, IG Group has committed undrawn funding lines totaling £180.0m at 31 May 2011 (2010: £160.0m).

IG Group does not have any material liquidity mismatches with regard to liquidity maturity profiles, given the very short-term maturity profile of both its financial assets and liabilities. IG Group's assets (excluding non-current assets), consist of cash at bank and on short-term deposit and short-term trade receivables. At 31 May 2011, IG Group has no material financial assets or financial liabilities with a maturity greater than three months.

IG Group has a Board-approved Individual Liquidity Adequacy Assessment (ILAA, approved in October 2011).

IG Group's principal liquidity risks

The following liquidity risks can arise:

Increase in broker margins

Increase in broker counterparty margin requirements may arise from a broker's concern about general market conditions or specific concerns about IG Group. This risk is mitigated by IG Group using multiple brokers per financial product asset class, and by having committed facilities in place for exceptional events.

Unexpected increase in broker margin levels

In time of market volatility, existing clients are likely to be more active which would lead to a sudden increase in margin requirements at brokers. If this increased activity is in response to a sharp fall in equity markets, IG Group's experience of 2008 showed a move away from higher margin single equity trades and towards lower margin indices and FX. However, in the very short-term there are liquidity issues with additional funds requiring to be paid to the brokers used for hedging indices and FX prior to receipt of margin released by the reduction in equity positions.

Counterparty failure

IG Group's management of financial institution credit risk is described in counterparty risk above.

Non-renewal of committed funding

Non-renewal of committed facilities could be made unilaterally by a credit institution on commercial grounds unrelated to IG Group's specific credit rating. There is no provision in the existing facilities which would allow the lenders to terminate these agreements (other than in breach of covenant or default). This risk is further mitigated by IG Group's initial and on-going due diligence on its committed funding providers to ensure diversity and reliability of contingency funding providers and commencement of the facilities renewal process several months prior to the renewal date.

Increase in hedging due to business growth

Under FSA's Client Assets (CASS) rules, IG Group does not use retail client funds as working capital, with the result that IG Group finances retail client margins from its own funds.

IG Group maintains that title transfer treatment is not appropriate for individuals and segregates their funds under FSA's CASS rules.

As a result, although significant increased retail client order flow is positive for earnings and long-term business potential, it could result in a liquidity gap between IG Group's requirement to pay broker margin while, at the same time, retail client funds would be subject to client money protection and be unavailable for use as broker margin.

Modelling these potential increases in client order flow is therefore a key driver in ensuring that IG Group's contingency funding plans are adequate.

Reduced financial market volatility

A sustained period of low volatility across all financial asset classes could lead to a reduction in client activity and reduce IG Group's turnover, profitability and, depending on the mix of equity trading, our liquidity in the medium- to long-term.

4. IG GROUP'S PRINCIPAL BUSINESS RISKS (continued)

4.3. MARKET RISK

Market risk is the risk that the fair value of financial assets and financial liabilities will change due to changes in market prices or currency or interest rates.

IG Group's market risk is managed on a group-wide and real-time basis.

IG Group primarily takes on market risk to facilitate instant execution of client trades, and therefore market risk limits are generally very conservative. IG Group's revenue model is flow-based, whereby revenue streams are derived from commission, finance and spread capture on client trading transactions, and not from taking on market risk. As such, IG Group does not take proprietary positions based on an expectation of market movements. However, not all client transactions are hedged and as a result, IG Group may have a net position in any of the markets on which it offers products. IG Group therefore has exposure to market risk to the extent that it has a residual un-hedged position.

IG Group has a formal market risk policy which includes limits, or a methodology for setting limits, for every single financial market in which IG Group clients trade, as well as certain groups of markets which the Risk Committee consider to be correlated. These rules limit the net exposure arising from client activity and hedging consistent with IG Group's risk appetite.

IG Group's trading systems allow it to continually monitor its exposure against these limits. If IG Group's exposure exceeds these limits as a result of clients closing existing or opening new positions, IG Group's policy requires that sufficient hedging is carried out to bring the exposure back within the defined limit.

Changes to market risk policy require review by the Risk Committee, which comprises of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Dealing and Operations Director, Risk Director and Treasurer. Changes to the market risk policy that significantly change IG Group's risk profile require approval by the Board.

Where IG Group has positions in markets for which it has not been possible or cost-effective to hedge (e.g. binary bets where there is often no direct underlying market), the Risk Committee determines the appropriate action and reviews these exposures regularly subject to the framework approved by the Board of Directors.

Market risk capital requirements

The following table illustrates IG Group's minimum (Pillar 1) market risk capital requirements:

Table 12 – IG Group Holdings plc

Analysis of market risk capital requirements (£m)

Position risk requirement (PRR)	Calculation method	At 31 May 2011	At 31 May 2010
Interest rate	Maturity method	3.1	0.4
Equity	Standard equity method	8.7	7.1
Options	CAD1 model	0.0	0.6
Options	Standard method	8.2	0.0
Commodities	Maturity ladder approach	2.9	1.1
Foreign currency	Standard method	3.9	4.8
Other	Digital Option' method (maximum loss)	0.3	0.6
Total		27.1	14.6

4. IG GROUP'S PRINCIPAL BUSINESS RISKS (continued)

4.4. OPERATIONAL RISK

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. IG is aware that operational risk can never be completely eliminated, however seeks to minimise the probability and impact of operational risk events.

Whilst operational risk management is the responsibility of all employees and management, IG has a dedicated Operational Risk team and further assurance is provided by the internal audit and compliance departments.

IG Group has adopted the Basic Indicator Approach under FSA's BIPRU 6.3 to calculate its operational risk capital component.

IG Group has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner consisting of the following components:

- complying with FSA's SYSC Rulebook requirements;
- maintenance of Risk Registers by all departments;
- review of IG Group's top company operational and business risks by the Risk Committee, to ensure that the controls in place are adequate and that the residual post-mitigation risk is within IG Group's risk tolerance;
- bi-annual review of all operational risks by department and process conducted by IG Group's Operational Risk Team;
- a register of all operational risk events kept by IG Group's Operational Risk Team, whether they result in a loss or not. Those that result in a loss are quantified;
- monitoring of key risk indicators (KRIs) by the Regulatory Controller, and reporting of performance and any breaches to the ICAAP and ILAA Committee;
- review of risks and controls as part of IG Group's Internal Audit Schedule; and
- maintaining ISO 27001 standards in respect of IT and data security.

Key Operational Risks

IG Group's key operational risks and their mitigants are as follows:

Regulation

IG Group operates in regulated environments. Any future changes to these regulatory environments would involve a process of consultation. To this end, it is vital that IG Group maintains strong and collaborative relationships with its regulators so as to enable it to contribute to any such consultation.

Third party dependency risk

IG Group is dependent on a number of third parties to provide services to enable it to carry out its business. There is a financial risk of third parties increasing the costs of services or withdrawing the service. IG Group mitigates this by regularly reviewing contracts, maintaining good relationships with suppliers and by having resilience in the form of multiple suppliers.

Breakdown in processes

IG Group is a multinational company which has offices in the UK, Europe, Asia, Australia, US and South Africa. IG Group aims to reduce the risk a breakdown of controls and processes by creating universal policies and encouraging departments and offices to work closely together.

IG Group's Internal Audit Programme is also designed to monitor controls and processes in all offices around the world.

Information security

IT resilience is key to IG Group's operations and on-going significant investment in its resilience infrastructure ensures that outages of IG Group's PureDeal client trading platform are minimised.

IG Group has also achieved the global BS ISO/IEC 27001:2005 Information Security Management System (ISMS) standard and the ISMS is continually monitored, improved and updated by IG Group's Information Governance Team. IG Group's InfoSec Forum provides regular senior management oversight and commitment to the ISMS and IG Group's information security.

Independent audit of the ISMS is performed on an on-going basis by IG Group's Internal Audit, and on an annual basis by external consultants.

4. IG GROUP'S PRINCIPAL BUSINESS RISKS (continued)

IT development

IG invests extensively in technology development. The operational risk is mitigated via a rigorous testing and deployment process.

IT system outage

IT resilience is key to IG Group's operations and on-going significant investment in its resilience infrastructure ensures that 'outages' of IG Group's PureDeal client trading platform are minimised.

IG Group has in place a comprehensive global business continuity and disaster recovery plan. A key pillar of this policy is regular fail-over testing to IG Group's main disaster recovery site. This regularly simulates a fail-over outside normal working hours when there is no direct physical access to hardware.

As part of this process, IG Group alternates which servers run its client trading platform production environment on a regular basis.

Reputational risk

Reputational risk arises as a result of failure to manage other business risks, consequentially places the highest importance on risk management at all levels throughout the organisation.

IG Group operates at the highest level of integrity and ethical standards in all its activities which mitigates this risk.

Fraud

IG Group's anti-fraud policy, covering both internal and external fraud, makes IG Group employees aware of key fraud risks and the procedures to be taken when potential fraud is detected.

Combating online fraud is paramount and IG Group has embedded controls at all process levels to mitigate this risk and these are constantly evolved. IG Group also uses external fraud mitigation software to support this and has built up a significant fraud prevention capability to combat any attempted fraud and to identify any suspicious activity on IG Group's websites.

In addition, IG Group is a member of Gamshield, an anti-fraud forum for the industry, and is committed to sharing its expertise within the industry.

Competition/Strategy

IG's Board monitor business and strategic performance via detailed KPI reporting. The risk appetite statement provides a risk framework for strategic evaluation and assessment of new strategic directions.

Litigation

IG has a dedicated legal team which work in conjunction with external counsel to ensure IG adopts best practice and is abreast of the legal landscape in the jurisdictions it operates in.

People

IG Group's success is closely aligned to the abilities and experience of its employees. IG Group's performance could be adversely affected by the loss of the services of key individuals. IG Group's ability to attract and retain key personnel is critical to IG Group's future prospects.

In order to mitigate this risk, IG Group seeks to create an open and supportive working environment for its employees. Reward and incentive schemes are regularly reviewed in order to ensure IG Group continues to be successful in attracting and retaining the caliber of employees necessary to meet its objectives, while aligning these schemes with IG Group's risk appetite, compliance and treating customers fairly objectives.

IG Group is included in the 'Employer of the Year - 2011' publication, a listing of the UK's top 58 employers, which IG Group feels is reflective of the competitive conditions and working environment it offers its employees on a worldwide basis.

IG Group maintains a senior management succession plan.

4. IG GROUP'S PRINCIPAL BUSINESS RISKS (continued)

4.5. CONCENTRATION RISK

Concentration risk affecting IG Group could arise from exposure to its clients (from a revenue, assets and market risk perspective), financial institutions or other business partners.

Concentration risk – client revenue

Concentration exposure could arise in respect of over-dependency on revenue derived from one or a relatively small number of clients. In this regard, IG Group does not have significant client concentration risk with, for example, IG Group's single largest client by revenue accounting for just 0.44% of total revenue for the six months to May 2011.

Concentration risk – assets and credit risk

IG Group's Credit Risk team monitors both its aggregate exposure and the individual client exposures to underlying assets (principally equities). This monitoring can result in the suspension or restriction of client trading in a particular asset.

IG Group operates a tiered margin policy to collect higher levels of margin on larger positions and therefore reducing the credit risk to the client.

Concentration risk – financial institutions

IG Group has set limits on client money deposits placed with third party financial institutions, with a cap at 25% of the Group's client money balances with any single institution. It is worthy of note that IG Group has no direct liability in the event of the failure of such a financial institution, as long as it is in compliance with FSA and other regulator client money rules, including those on the selection of client money banks such as those contained in CASS 7.4.

All financial institution exposure limits are reviewed at least semi-annually by IG Group's Risk Committee. An exposure summary covering both client money deposits and own funds exposures is sent to IG Group's senior management on a daily basis.

IG Group currently has two facility providers with committed facilities of £180.0m and given the committed nature of the facilities IG Group is satisfied that this is adequate.

Concentration risk – other business activity

IG Group does not believe it has any material concentration risk within its range of business partners, whether in IT or other services and considers this potential risk as part of its strategic partner selection process.

4.6. INTEREST RATE RISK IN THE NON-TRADING BOOK

Interest rate risk is the potential adverse impact on IG Group's future cash flows and earnings from changes in interest rates on IG Group's short-term deposits with banks and brokers.

Possible interest rate sensitivity

The sensitivities in the table below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. A 1.25% increase and a 0.25% decrease in interest rates compared to actual rates would increase/(decrease) IG Group's net interest income by the following amounts for the year ended 31 May 2011:

Table 13 – IG Group Holdings plc

Interest rate movement - non-trading book (£m)

Reasonably possible interest rate movement	Effect for year ending 31 May 2011
1.25% increase	5.3
0.25% decrease	(1.6)

5. REMUNERATION DISCLOSURE

IG Group's Remuneration Committee, whose composition is set out in the Corporate Governance Report on pages 51-58 of IG Group Holdings plc's Annual Report, is responsible for making recommendations to the Board on IG Group's remuneration policy. Within the terms of the policy, the Remuneration Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights, compensation payments and contingent awards. During the year, the Remuneration Committee received advice from external advisors Kepler Associates.

5.1. REMUNERATION PRINCIPLES

The Remuneration Committee has agreed that the following principles should apply to all matters relating to remuneration of IG Group employees:

- remuneration should recognise and reward good and excellent performance of employees that helps drive the sustainable growth of IG Group
- remuneration should be focused on retaining proven senior management
- remuneration should be consistent with regulatory and corporate governance requirements
- remuneration should be used to achieve effective risk management
- remuneration should never be used to reward behaviour that exposes IG Group to risks outside its risk appetite
- remuneration should be aligned with the best interests of the Company's shareholders
- remuneration should be straightforward, making it understandable for employees and easy for IG Group to monitor
- variable remuneration should not be guaranteed for new staff unless it is exceptional, and if it is provided it must be limited to their first year

5.2. REMUNERATION REGULATION

During the year, the Remuneration Committee ensured IG Group's approach to remuneration was structured in accordance with the FSA's Remuneration Code (the FSA Code). Code Staff are defined as IG Group's employees whose professional activities could have a material impact on the Group's risk profile, and who fall into the Code Staff categories set down by the FSA Code. Code Staff have been identified, made aware of the implications of their status and their remuneration has been reviewed by the Remuneration Committee during the financial year.

A summary of the ways in which the Remuneration Committee is committed to ensuring remuneration arrangements are in accordance with the FSA Code is provided below:

- at least 40% of variable remuneration of Code Staff is deferred over three to five years, with awards vesting no faster than on a pro-rata basis (and the first vesting no earlier than one year after the award). Where the amount of variable remuneration is more than £500,000, at least 60% is deferred
- at least 50% of variable remuneration is paid in non-cash form
- the allocation of variable remuneration takes into account all types of current and future risks
- mechanisms are in place to adjust awarded but unvested variable remuneration, in particular where there is evidence of employees' misbehaviour or material error, or where the firm suffers material financial downturn or material failure in risk management
- appropriate ratios of variable to fixed remuneration are set, and there is an appropriate balance between the elements. The level of fixed remuneration is sufficient to allow no variable remuneration to be paid where appropriate
- there is a clear written remuneration policy in place which is communicated to employees and ensures the implications of their status is understood

5. REMUNERATION DISCLOSURE

(continued)

5.3 PERFORMANCE AND PAY

The annual bonus for IG Group's Executive Directors is calculated by reference to growth in diluted adjusted earnings per share (EPS). For the year beginning 1 June 2011, the Remuneration Committee has recalibrated the bonus scheme to reflect current performance and economic conditions. The Committee feels that these targets represent an appropriate balance between a stretching target and one which is not completely unachievable given current economic conditions. The approved profile is shown in Table 14:

Table 14 – IG Group Holdings plc

Growth in EPS Bonus

Growth in EPS	Bonus as a percentage of salary
0%	0%
2%	50%
7%	100%
12%	150%
15%	200%

Last year the Remuneration Committee introduced an element of deferral into the cash bonus scheme and these arrangements, which are in line with the final FSA rules on disclosure of remuneration published in December 2010, continue unchanged this year: the first £100,000 of any bonus plus one third of the remainder to be paid in cash, the balance being deferred for 12 months and provided in shares.

The disclosure of the aggregate remuneration of Code Staff is set out in Table 15 below.

Table 15 – IG Group Holdings plc

Code staff aggregate remuneration (£m)

	Executive Directors	Other Code Staff	Total
Fixed remuneration	1.1	0.9	1.9
Variable remuneration	0.4	0.4	0.8
Share based payment schemes	4.3	1.8	6.1
Number of Staff	4	6	10

The full Directors' Remuneration Report can be found on pages 59-67 of the IG Group Holdings plc's Annual Report.

6. FURTHER INFORMATION

Should you require any further information, please contact:

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Certain statements in this Pillar 3 Disclosures document are forward looking. Although IG Group believes that the expectations reflected in these statements are reasonable, IG Group gives no assurance that these expectations will prove to be an accurate reflection of actual results.

Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these statements.

IG Group undertakes no obligation to update any Pillar 3 disclosures whether as a result of new information, future events or otherwise.

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