IG GROUP HOLDINGS PLC

PILLAR 3 DISCLOSURES

31/05/2018

Contents

1. OVERVIEW

1.1. INTRODUCTION

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

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, 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.

The Pillar 3 disclosure rules are contained in Articles 431 – 455 of the Capital Requirements Regulation (CRR). Information is disclosed by IG Group Holdings plc (IG) under these rules unless it does not apply or is considered by the Group Executive Risk Committee as being proprietary or confidential information. In the instances where information is not being disclosed then reference is made to this fact.

Quantitative disclosures under the CRR are made as at 31 May 2018.

1.2. SCOPE AND FREQUENCY OF DISCLOSURES

The Pillar 3 disclosures are made in respect of all entities that are consolidated in the IG Group Holdings Plc Annual Report for the year ended 31 May 2018 and listed in Note 30 of that report. The same entities also form the UK Consolidation Group which is subject to consolidated supervision by the FCA. IG's prudentially regulated entities and their regulator(s) are shown in Table 1 on the following page.

In accordance with Article 433 of the CRR, the Pillar 3 disclosures are made on an annual basis and published on IG's corporate website (www.iggroup.com).

The Pillar 3 disclosures have been prepared as required under CRD and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement about the Group.

The Group has not applied for any Internal Ratings Based (IRB) regulations and consequently no Pillar 3 IRB disclosures are included in this document.

TABLE 1

PRUDENTIALLY REGULATED ENTITIES AND REGULATOR(S)

ENTITY	**REGULATOR(S)**
IG Index Limited	Financial Conduct Authority (FCA)
IG Markets Limited	FCA and the Australian Securities and Investments Commission (ASIC)
IG Securities Limited	Japanese Financial Services Agency (JFSA) and the Ministry of Economy, Trade and Industry (METI)
IG Asia Pte Limited	Monetary Authority of Singapore (MAS)
Nadex Inc.	Commodity Futures Trading Commission (CFTC)
IG Markets South Africa Limited	Financial Services Board (FSB)
IG Bank S.A.	Swiss Financial Market Supervisory Authority (FINMA)
IG Limited	Dubai Financial Services Authority (DFSA)

There are no current or foreseen material, practical or legal impediments to the transfer of capital resources or repayment of liabilities between IG Group Holdings plc and its subsidiary undertakings, other than restrictions due to regulatory capital requirements held by the above regulated entities (regulated entities as at 31st May 2018).

Intra-group capital transferability is reviewed at least once a year as part of the Internal Capital Adequacy Assessment Process (ICAAP) (see Section 3.4 below).

2. RISK MANAGEMENT

2.1. RISK MANAGEMENT FRAMEWORK

IG has an established Risk Management Framework to identify, measure, manage and monitor the risks faced by the business, and to manage the risk that the Group's conduct may pose to the achievement of fair outcomes for consumers or to the sound, stable, resilient and transparent operation of the financial markets.

This framework provides the Board with assurance that IG's risks, including the risks relating to the achievement of Group's strategic objectives, are understood and managed in accordance with the appetite and tolerance levels set. It provides the basis for enabling the Group's ongoing assessment and monitoring of capital adequacy and its liquidity risk management.

More information on IG's Strategy & Risk Framework can be found in the IG Group Holdings Plc's Annual Report on pages 16-19 and the Risk Management Framework and the governance around the framework can be found on pages 32-33.

2.2. PRINCIPAL RISKS

IG's Risk Taxonomy categorises the principal risks faced by the firm into five areas: the risks inherent in the regulatory environment, the risks inherent in the commercial environment, business model risk, operational risk and conduct risk. The major risks identified within each of these areas and the actions taken to mitigate these risks are summarised in the table below.

Principal risk areas	Principal risks	Mitigating actions
Regulatory environment risk The risk that the regulatory environment in which the Group operates changes in a way that has an adverse effect on the Group's business or operations, through reduction in revenue, increases in costs, or increases in capital and liquidity requirements.	Regulatory change Expansion risk Tax risk	The Group operates to the highest regulatory standards and leads the industry in the way in which it deals with its clients. The Group maintains a strong relationship with its key regulators and an active dialogue with them to keep abreast of impending regulatory developments. The Group also includes the risk of significant adverse changes in the manner in which the Group itself, or the Group's business, is subject to taxation, for example the risk of the imposition of a financial transactions tax.
Commercial risk The risk that the Group's performance is affected by a prolonged period of adverse market Conditions, failure to adopt or implement an effective business strategy, new or existing competitors offering more attractive products/services or as a result of a third-party supplier on which the Group depends deciding to cease providing services to the business.	Strategic management risk Market conditions risk Competitor risk Supplier dependency risk	The Board regularly and thoroughly reviews, and challenges of the Group's strategy and the performance of the various strategic initiatives taken. The Group seeks to mitigate the impact of adverse market conditions risk through detailed review of daily revenue analysis, monthly financial information and other Key Performance Indicators (KPIs), and regular reforecasts of its expected financial performance reflecting the latest and expected market conditions. The Group uses these forecasts to determine actions necessary to manage performance, with consideration given to changes market conditions. Competitor risk is mitigated where possible by maintaining a clear distinction in the market in terms of product, service and ethics, and by closely monitoring the activity and performance of its competitors, including detailed comparison of the terms of the product offers.

		The Group performs regular reviews and seeks to ensure that it has suitable engagement terms with each provider, so as to identify any issues which may arise and gain an understanding of any new upcoming requirements.
Business model risk The risk faced by the Group arising from the nature of its business and its business model.	Market risk Credit risk Liquidity risk Capital adequacy risk	IG has a Market Risk Policy which sets out how the business manages its market risk exposures. The Market Risk Policy incorporates a methodology for setting market position limits, consistent with the Group's risk appetite, for each financial market in which the Group's clients can trade, as well as certain groups of markets or assets which the business considers to be correlated. Client credit risk is managed through setting margin requirements that reflect the market price risk for each instrument and using tiered margining so that larger positions are subject to proportionately higher margin requirements. Real-time monitoring of client positions via the close-out monitor (COM), and by giving clients the ability to set a level at which an individual deal will be closed (the 'stop' level or 'guaranteed stop' level) also mitigates this risk. Financial institution counterparties are subject to a regular credit review where maximum exposure limits are set in relation to their credit rating and systemic position. The Group uses a number of measures for managing day-to-day liquidity risk, including the level of total liquid assets of broker margin requirement and of same-day available cash. Stress testing is carried out to ensure the correct level of liquid asset buffer and contingent funding facilities. The Group seeks to ensure that it has sufficient capital to operate its business successfully and to meet regulatory requirements. The Group manages its capital resources with the objectives of facilitating business growth, maintaining its dividend policy and complying with the regulatory capital resources requirement set by its regulators around the world.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people activities, systems or external events.	Technology risk People risk Process risk	Technology risk is managed through the Group's Technology Risk Management Framework and is overseen by the Group's Technology Risk Committee. Key performance indicators, incidents and outages are raised to this forum, comprising of IT and risk experts. To manage cyber risk and external threats to our systems and data, the Group has a specific Information Security Forum.

The risk that the Group is unable to attract and retain the staff it requires to operate its business successfully.	External risk	The Group operates a clear set of controls and a range of indicators to manage, monitor and mitigate people risk. This includes an annual employee engagement survey, performance check-ins, measurement and analysis of employee turnover, talent identification, succession and development planning and internal recruitment. Management looks to mitigate process risk through the maintenance of policy and procedure documents, training, risk and control self-assessments that identify key controls and highlight areas for improvement, and the production and review of appropriate management information. The protection of property and other assets from external events is managed through a mix of risk avoidance, risk mitigation, operational controls and risk transfer mechanisms. The Group has well-developed security, business continuity and disaster recovery procedures in place
Conduct risk The risk that the Group's conduct poses to the achievement of fair outcomes for consumers or to the sound, stable, resilient and transparent operation of the financial markets.	Client outcomes Markets and financial crime Employee behaviour	The Group manages the risk that the Group's conduct may pose to the achievement of fair outcomes for consumers, and to the sound, stable, resilient and transparent operation of the financial markets. The Group has a conduct risk framework, and has implemented a conduct risk strategy

For more information on the Risk Management Framework and Governance see IG Group Holdings Plc's Annual Report pages 34-38.

3. CAPITAL RESOURCES & REQUIREMENTS

3.1. TOTAL CAPITAL RESOURCES

The Group's total own funds and risk exposure amounts as at 31 May 2018 are shown in Table 2 below.

Own funds represent 27.4% of the total risk exposure amount as at 31 May 2018 (2017: 25.7%), calculated on the financial statements for the financial year.

TABLE 2

YEAR ENDED 31 MAY	Section Ref	2018 £m	2017 £m
Shareholders' equity per audited financial statements		842.1	735.3
COMMON EQUITY TIER 1 ITEMS		**842.1**	**735.3**
DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS			
Less: foreseeable dividends		(123.1)	(83.9)
Less: intangible assets, net of associated deferred tax liabilities		(151.4)	(156.7)
Less: deferred tax asset reliant on future profitability		(9.1)	(9.1)
COMMON EQUITY TIER 1 CAPITAL		**558.5**	**485.6**
ADJUSTED OWN FUNDS		**558.5**	**485.6**
TOTAL RISK EXPOSURE AMOUNTS			
Risk weighted amounts for credit and counterparty risks	4.1	436.2	441.9
Total risk exposure amount for settlement	4.2	2.5	0.5
Total risk exposure amount for position, foreign exchange and	4.3	607.4	505.4
Total risk exposure amount for operational risk*	4.4	955.3	900.6
Total risk exposure amount for CVA add on	4.5	36.3	38.2
TOTAL RISK EXPOSURE AMOUNT		**2037.7**	**1886.6**
CET1 Capital ratio (regulatory minimum 4.5%)		27.4%	25.7%
T1 Capital ratio (regulatory minimum 6%)		27.4%	25.7%
Total Capital ratio (regulatory minimum 8%)		27.4%	25.7%
REQUIRED CAPITAL RATIO			
Pillar 1 minimum		8%	8%
Individual Capital Guidance (ICG)		9.4%	9.4%
ICG requirement		17.4%	17.4%
Combined buffer requirement		2.2%	1.3%
Total requirement %		19.6%	18.7%
Total requirement - £m		399.4	352.8
Capital headroom - £m		159.1	132.8

** The Operational Risk comparative figure (2017) is restated from amount in IG Group Holdings Plc's Annual Report.*

3.1.1. COMMON EQUITY TIER 1 ('CET1')

CET1 capital comprises equity share capital, share premium and associated reserves.

Intangible assets that are deducted from CET1 capital primarily relate to goodwill resulting from a management buy-out transaction in 2003 and intangible assets arising from acquiring domain names and developed and purchased software. More details on the intangible assets can be found in Note 12 of the IG Group Holdings Plc Annual Report (pages 111 – 112).

In addition, foreseeable dividends are deducted from the Common Equity Tier 1 items.

3.1.2. TIER 2 CAPITAL

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

The redeemable preference shares are entitled to a fixed non-cumulative 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.

3.2. CAPITAL ADEQUACY AND MINIMUM REQUIREMENTS

3.2.1. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ('ICAAP')

The Group undertakes an internal assessment of capital requirements annually or more frequently, if required by the Board.

The outcome of the ICAAP is the Internal Capital Assessment ('ICA'), which is approved by the 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 line with the FCA's IPFRU rules.

The ICA, once approved is monitored internally as an integral part of the Risk Management Framework. On-going review by the ICAAP and ILAA Committee ensures that all changes to the Group's risk profile are identified, assessed and reported.

IG is subject to Supervisory Review ('SREP') by the FCA on a recurring cycle. The FCA reviews the Groups ICA as part of this process and may set Individual Capital Guidance ('ICG') as a result. The ICG is guidance given to a firm with regards to the amount and quality of capital resources that the supervisor believes the firm should hold under the IFPRU Overall Financial Adequacy rule.

3.2.2. PILLAR 1 MINIMUM REQUIREMENTS

Under CRD IV, institutions are required to meet the following own funds requirements: a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%. These form the institution's Pillar 1 requirements. Pillar 2 covers risks that are not fully addressed by Pillar 1.

3.2.3. REGULATORY CAPITAL BUFFERS

Alongside the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can absorb losses in times of economic stress. To ensure that the same risks are not duplicated within the buffers, the Pillar 2 is assessed alongside other capital buffers, as described below.

3.2.3.1. CAPITAL CONSERVATION BUFFER ('CCB')

The CCB is designed to ensure that institutions build up capital buffers outside of times of stress that can absorb losses if required. The requirement is 2.5% of Total Risk Exposure Amounts however a transitional period is implementing this regulation gradually until Jan 2019. As of 31 May 2018, the capital conservation buffer was 1.875% and the Group's requirement was £38.2m.

3.2.3.2. COUNTERCYCLICAL BUFFER ('CCYB')

The CCyB is designed to ensure that financial institutions to hold additional capital to reduce the build-up of systemic risk by providing additional loss absorbing capacity and acting as a check on pro-cyclicality effects.

Each institution's specific countercyclical buffer rate is a weighted average of the countercyclical capital buffers that apply in jurisdictions where the relevant credit exposures are located. The CCyB rates for each jurisdiction are set by national competent authorities (including 'third country' supervisors) according to the requirements outlined in the Basel Committee's recommendations.

TABLE 3
GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

Breakdown by Country	RW Exposure at 31 May 2018 (£m)	Own funds requirements (£m)	Own funds requirement weighting	Countercyclical capital buffer rate	Countercyclical Capital buffer weighted requirement
UK	443.6	25.9	56.5%	0.5%	0.28%
Norway	1.7	0.14	0.3%	2.0%	0.01%
Sweden	5.2	0.30	0.7%	2.0%	0.01%
Hong Kong	6.7	0.48	1.0%	1.88%	0.02%
					0.32%

TABLE 4

AMOUNT OF INSTITUTION SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

	2018 £m / %	2017 £m/ %
Total risk exposure amount (TREA)	2,037.7	1,886.6
Institution specific countercyclical buffer rate	0.32%	0.25%
Institution specific countercyclical buffer requirement	6.6	4.8

3.2.3.3. OTHER BUFFERS

IG is not subject to any other regulatory buffers which require the Group to hold additional capital.

4. RISK DISCLOSURES

4.1. CREDIT RISK

Table 2 (in Section 3.1 above) shows the total risk weighted amounts for credit and counterparty risks. Credit risk is calculated for the non-trading book items and counterparty risk for the trading book requirements. IG Group uses the Standardised Approach under CRR Title II, Chapter 6, and Articles 111 – 141 to calculate the credit risk weighted exposure amounts.

4.1.1. CREDIT EXPOSURES

Table 5 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 2018 broken down by different types of credit exposure classes.

TABLE 5

ANALYSIS OF TOTAL CREDIT EXPOSURES AND RISK WEIGHTED ASSETS BY REGULATORY ASSET CLASS AT 31 MAY 2018 (£M)

REGULATORY EXPOSURE ASSET CLASS	**TRADING BOOK EXPOSURE**	**NON-TRADING BOOK EXPOSURE**	**TOTAL EXPOSURE**	*TRADING BOOK RWAs*	*NON-TRADING BOOK RWAs*	*TOTAL RWAs*
Central Government	-	173.6	173.6	-	-	-
Institutions	408.0	284.4	692.4	*78.1*	*85.6*	*163.7*
Corporates	185.5	6.3	191.8	*86.6*	*1.3*	*87.9*
Retail	105.7	-	105.7	*105.7*	-	*105.7*
Exposures in default	-	1.5	1.5	-	2.2	2.2
Other Items*	-	76.7	76.7	-	*76.7*	*76.7*
Total	**699.2**	**542.5**	**1241.7**	*270.4*	*165.8*	*436.2*

*Other items include tangible assets, prepayments and balances that will be transferred to the Group's own cash from segregated client funds on the following working day in accordance with the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates as well as excess funds held in segregation in certain jurisdictions. This also includes amounts due from banking counterparties or held within segregated client funds in relation to monies transferred by clients to the Group that remain unsettled at the year-end. The Group is required to segregate these client funds at the point of client funding and not at cash settlement.

Central Government exposures include a value of £83.1m with a maturity of greater than three months to satisfy the FCA requirement to hold a Liquid Assets Buffer (the 'LAB') of qualifying liquid securities. IG Group also places UK Government securities at brokers as collateral to support the hedging of client market exposures in accordance with the Group's market risk management policy. At 31 May 2018, the value of these encumbered assets was £90.5m.

Further information on asset encumbrance can be found in Note 16 of the Group's annual report under the section "Financial Investments".

IG Group does not treat client money accounts held under trust arrangements in segregated client money bank accounts as credit exposures of the Group: these funds are held within insolvency-remote accounts at banking counterparties.

Table 6 analyses the trading book counterparty risk capital requirement in respect of the above credit exposures:

TABLE 6

ANALYSIS OF TRADING BOOK CREDIT RISK EXPOSURES AND RISK WEIGHTED ASSETS (£M) AS AT 31 MAY 2018

REGULATORY EXPOSURE ASSET CLASS	**POSTIVE REPLACEMENT COST**	**POTENTIAL FUTURE CREDIT EXPOSURE**	**CREDIT RISK MITIGATION**	**TOTAL NET EXPOSURE**	*TRADING BOOK RWAs*
Central Government	-	-	-	-	-
Institutions	234.1	173.9	-	408.0	*78.1*
Corporates	163.4	68.3	(46.2)	185.5	*86.6*
Retail	384.3	288.3	(566.9)	105.7	*105.7*
Exposures in default	-	-	-	-	-
Other Items	-	-	-	-	-
Total	**781.8**	**530.5**	**(613.1)**	**699.2**	*270.4*

The counterparty risk capital requirements are calculated under CRR Title II, Chapter 6, and Article 274 using the Mark to Market Method. On- and off- balance sheet credit exposures reported according to IFRS are capitalised using the standardised approach according to CRR Title II, Chapter 2.

4.1.2. CREDIT EXPOSURES BY GEOGRAPHIC DISTRIBUTION

Table 7 analyses the geographic distribution of non-trading book credit exposures:

TABLE 7

ANALYSIS OF NON-TRADING BOOK CREDIT EXPOSURES BY REGION (£M) AS AT 31 MAY 2018

REGULATORY EXPOSURE ASSET CLASS	UK	EMEA	APAC	US	EXPOSURE TOTAL	*RWAs TOTAL*
Central Government	173.6	-	-	-	173.6	-
Institutions	141.3	76.1	10.0	57.0	284.4	*85.6*
Corporates	3.7	-	2.6	-	6.3	*1.3*
Retail	-	-	-	-	-	-
Exposures in default	0.9	0.5	0.1	-	1.5	2.2
Other Items	76.7	-	-	-	76.7	*76.7*
Total	**396.2**	**76.6**	**12.7**	**57.0**	**542.5**	*165.8*

Table 8 analyses the geographic distribution of trading book credit exposures:

TABLE 8

ANALYSIS OF TRADING BOOK CREDIT EXPOSURES BY REGION (£M) AS AT 31 MAY 2018

REGULATORY EXPOSURE ASSET CLASS	UK	EMEA	APAC	US	EXPOSURE TOTAL	*RWAs TOTAL*
Central Government	-	-	-	-	-	-
Institutions	126.2	130.1	54.3	97.4	408.0	*78.1*
Corporates	69.6	2.9	1.3	111.7	185.5	*86.6*
Retail	55.4	24.9	25.4	-	105.7	*105.7*
Exposures in default	-	-	-	-	-	-
Other Items	-	-	-	-	-	-
Total	**251.2**	**157.9**	**81.0**	**209.1**	**699.2**	*270.4*

4.1.3. CREDIT EXPOSURES BY MATURITY

All trading book credit exposures have a maturity of less than 3 months. Table 9 analyses the residual maturity breakdown of non-trading book credit exposures:

TABLE 9

ANALYSIS OF NON-TRADING BOOK CREDIT EXPOSURES BY MATURITY (£M) AS AT 31 MAY 2018

REGULATORY EXPOSURE ASSET CLASS	< 3 MONTHS	3 MONTHS – 1 YEAR	1 – 5 YEARS	> 5 YEARS	EXPOSURE TOTAL	*RWAs TOTAL*
Central Government	62.2	35.7	75.7	-	173.6	-
Institutions	284.4	-	-	-	284.4	*85.6*
Corporates	6.3	-	-	-	6.3	*1.3*
Retail	-	-	-	-	-	-
Exposures in default	1.5	-	-	-	1.5	2.2
Other Items	76.7	-	-	-	76.7	*76.7*
Total	**431.1**	**35.7**	**75.7**	**-**	**542.5**	*165.8*

4.1.4. CREDIT EXPOSURES BY PAST DUE AND IMPAIRMENT AMOUNTS

Specific impairments of trade receivables due from clients are recorded in a separate allowance account. Impairments are recorded where IG determines that it is probable that it will be unable to collect all amounts owing according to the contractual terms of the agreement. There are no collective impairments taken.

IFRS 9 was endorsed by the EU during 2016 and is effective for periods beginning on or after 1 January 2018. The Group does not intend to adopt the standard early. Therefore, it will first be applicable to the Group's accounting period ending 31 May 2019. IFRS 9 is not expected to materially impact the financial statements, however it will impact the Group's classifications of financial instruments and the relevant disclosures.

It is not expected that the Group will be materially impacted by any other elements of IFRS 9 such as embedded derivatives or hedge accounting as these are not used by the Group.

Table 10 analyses by exposure class, the amount of impaired exposures and past due exposures, specific credit risk adjustments and charges for specific credit risk adjustments during the period:

TABLE 10

CREDIT EXPOSURES – ANALYSIS OF IMPAIRED AND PAST DUE EXPOSURES AND SPECIFIC CREDIT RISK ADJUSTMENTS (£M) AS AT 31 MAY 2018

REGULATORY EXPOSURE ASSET CLASS	IMPAIRED	PAST DUE	SPECIFIC CREDIT RISK ADJUSTMENTS	CHARGES FOR SPECIFIC CREDIT RISK ADJUSTMENTS DURING THE FINANCIAL YEAR
Corporates	1.0	0.1	(0.9)	-
Retail	12.3	0.6	(10.6)	(0.1)
Total	**13.3**	**0.7**	**(11.5)**	**(0.1)**

4.1.5. PAST DUE AND IMPAIRMENT AMOUNTS BY GEOGRAPHIC DISTRIBUTION

Table 11 discloses the amount of impaired exposures and past due exposures, broken down by geographical areas including the amounts of specific credit risk adjustments related to each geographical area:

TABLE 11

CREDIT EXPOSURES – GEOGRAPHIC ANALYSIS OF IMPAIRED AND PAST DUE EXPOSURES;

SPECIFIC CREDIT RISK ADJUSTMENTS (£M) AS AT 31 MAY 2018

REGULATORY EXPOSURE ASSET CLASS	UK	EMEA	APAC	US	TOTAL
Impaired	5.5	6.8	1.0	-	13.3
Past due items	0.3	0.3	0.1	-	0.7
Specific credit risk adjustments	(4.6)	(6.1)	(0.9)	-	(11.6)
Total	**1.2**	**1.0**	**0.2**	**-**	**2.4**

Further information on impairment of trade receivables can be found in Note 26 of the Group's annual report on page 124.

4.1.6. SPECIFIC CREDIT RISK ADJUSTMENTS

Table 12 reconciles changes in specific credit risk adjustments for impaired exposures, separately as well as specific credit risk adjustments and recoveries recorded directly to the income statement for the year ending 31 May 2018:

TABLE 12

SPECIFIC CREDIT RISK ADJUSTMENTS (£M)

	£m
Balance as at 1 June 2017	13.9
Charge for specific credit risk adjustments during the financial year	0.1
Amounts written off net of recoveries	(2.7)
Foreign exchange adjustment	(0.3)
BALANCE AS AT 31 MAY 2018	**11.0**

4.1.7. 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 trading book and non-trading book counterparties in each standardised credit exposure class. S&P is an ECAI for the purposes of calculating risk weights under the FCA's Standardised Approach. Institutional credit exposures are calculated using the lowest rating of long-term and short-term S&P ratings.

Table 13 analyses institutional credit exposures by S&P rating, credit quality step and risk weighting as at 31 May 2018:

TABLE 13

INSTITUTION CREDIT EXPOSURE – CREDIT QUALITY STEPS AND RISK WEIGHTING (£M) AS AT 31 MAY 2018

CREDIT QUALITY STEP	STANDARD AND POOR'S LONG-TERM RATING	RISK WEIGHT	NON-TRADING BOOK EXPOSURE	TRADING BOOK EXPOSURE
1	AAA to AA-	20%	8.7	91.7
2	A+ to A-	20%	203.1	292.6
3	BBB to BBB-	20%	49.8	1.6
4	BB+ to BB-	50%	-	-
5	B+ to B-	50%	0.3	-
6	CCC+ and below	150%	-	-
Unrated	-	100%	22.5	22.1
Total			**284.4**	**408.0**

Table 14 analyses corporate credit exposures by S&P rating, credit quality step and risk weighting as at 31 May 2018:

TABLE 14

CORPORATE CREDIT EXPOSURE

CREDIT QUALITY STEPS AND RISK WEIGHTING (£M) AS AT 31 MAY 2018

CREDIT QUALITY STEP	STANDARD AND POOR'S LONG-TERM RATING	RISK WEIGHT	NON-TRADING BOOK EXPOSURE	TRADING BOOK EXPOSURE
1	AAA to AA-	20%	-	-
2	A+ to A-	20%	5.8	-
3	BBB to BBB-	20%	0.4	143.7
4	BB+ to BB-	50%	-	-
5	B+ to B-	50%	-	-
6	CCC+ and below	150%	-	-
Unrated	-	100%	0.1	41.8
Total			**6.3**	**185.5**

4.2. SETTLEMENT RISK

The Pillar 1 Settlement risk exposure is calculated on any unsettled stockbroking assets transferred from or to custodians and/or brokers, in line with regulations under Title V of the CRR. As at 31 May 2018 IG Group's settlement risk exposure amount was £2.5m (2017: £0.5m).

TABLE 15

SETTLEMENT RISK EXPOSURE (£M) AS AT 31 MAY 2018

UNSETTLED TRANSACTIONS IN THE TRADING BOOK	UNSETTLED TRANSACTIONS AT SETTLEMENT PRICE	PRICE DIFFERENCE EXPOSURE DUE TO UNSETTLED TRANSACTIONS	TOTAL SETTLEMENT RISK EXPOSURE AMOUNT
Transactions unsettled up to 4 days (Factor 0%)	2.37	0.13	-
Transactions unsettled up to 5 and 15 days (Factor 8%)	1.56	0.09	0.09
Transactions unsettled up to 16 and 30 days (Factor 50%)	0.09	0.01	0.08
Transactions unsettled up to 31 and 45 days (Factor 75%)	0.07	-	0.05
Transactions unsettled for 46 days or more (Factor 100%)	2.24	0.18	2.31
Total	**6.33**	**0.41**	**2.53**

4.3. MARKET RISK

4.3.1. MARKET RISK CAPITAL REQUIREMENTS

The market risk capital requirements are calculated in accordance with CRR Title IV. The following table illustrates the Group's minimum (Pillar 1) market risk capital requirements:

TABLE 16

ANALYSIS OF MARKET RISK CAPITAL REQUIREMENTS (£M) AS AT 31 MAY 2018

ASSET CLASS	**CALCULATION METHOD**	**REQUIREMENT 2018**	*RWAs 2018*	**REQUIREMENT 2017**	*RWAs 2017*
Interest rate	Maturity method	0.8	*10.2*	0.6	*6.9*
Equity	Standardised method	32.7	*409.1*	28.5	*356.0*
Options	Standardised method	4.2	*52.6*	2.7	*33.3*
Commodities	Extended maturity ladder	8.5	*106.6*	6.5	*81.7*
Currencies	Standardised method	2.3	*28.9*	2.2	*27.5*
Total		**48.5**	*607.4*	**40.5**	*505.4*

4.4. OPERATIONAL RISK

The Pillar 1 Operational Risk requirement is calculated using the Basic Indicator Approach according to Article 315 of the CRR. As at 31 May 2018 IG Group's Operational Risk requirement was £76.4m from RWAs of £955.3m (2017: requirement of £72.0m and RWA of £900.6m).

TABLE 17

ANALYSIS OF OPERATIONAL RISK CAPITAL REQUIREMENTS (£M) AS AT 31 MAY 2018

CALCULATION METHOD	**2016**	**2017**	**2018**	**AVERAGE**	**OPERATIONAL RISK CHARGE**	*OPERATIONAL RISK RWAs*
Revenue	456.3	491.1	569.0			
Interest Income	3.4	4.0	4.5			
Finance Revenue	2.0	1.7	2.9			
Finance Costs	-1.7	-1.4	-3.2			
	460.0	**495.4**	**573.2**	**509.5**	**76.4**	*955.3*

4.5. CREDIT VALUATION ADJUSTMENT

Credit Valuation Adjustment ("CVA") adjusts the risk weighting of a firm's credit risk to financial institutions by applying a derived, markets-based adjustment to allow for the current probability of default. As at 31 May 2018 IG Group's CVA add on was calculated in accordance with Title VI as £36.3m (2017: £38.2m).

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 the short-term deposits with banks and brokers.

4.6.1. 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 0.5% increase/decrease in interest rates compared to actual rates would increase/(decrease) the net interest income by the following amounts for the year ended 31 May 2018:

TABLE 18

INTEREST RATE MOVEMENT (£M)

REASONABLY POSSIBLE INTEREST RATE MOVEMENT FOR YEAR ENDING 31 MAY 2018	CASH AND CASH EQUIVALENTS	TRADE RECEIVABLES – DUE FROM BROKERS	TRADE PAYABLES –CLIENT FUNDS HELD ON BALANCE SHEET
Impact	+/- 1.4	+/- 1.6	+/- 0.6

4.7. LEVERAGE RATIO

The Leverage Ratio was introduced under Basel III as a transparent, comparable, non-risk weighted based ratio. It is defined as the ratio of Tier 1 capital to total exposures (balance sheet exposures, derivative exposures, securities financing transactions and off-balance sheet items).

The Basel Committee have set a minimum leverage ratio of 3% for firms, however EU regulation does not currently require that a minimum level is maintained by firms such as IG. As at 31st May 2018, IG Group had a leverage ratio of 30.4% (2017: 27.9%).

TABLE 19

YEAR ENDED 31 MAY	2018 £m	2017 £m
Total assets per audited financial statements	1061.1	928.2
Reversal of accounting values: Derivatives	(0)	(6.1)
Exclusion of items already deducted from Tier 1 capital	(160.5)	(165.8)
TOTAL ON-BALANCE SHEET EXPOSURES (Excluding derivatives)	**900.6**	**756.3**
Derivative Exposures:		
Replacement cost associated with all derivatives transactions	405.5	357.4
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	530.8	629.8
TOTAL DERIVATIVE EXPOSURES	**936.3**	**987.2**
LEVERAGE RATIO TOTAL EXPOSURE MEASURE	**1836.9**	**1743.5**
TIER 1 CAPITAL	**558.5**	**485.6**
LEVERAGE RATIO	**30.4%**	**27.9%**

5. FURTHER INFORMATION

Further information is available from:

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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.