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Research Update:

IBG LLC Counterparty Credit Rating Raised To 'BBB+'; Outlook Is Stable

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Table Of Contents

Rationale

Outlook

Ratings List

Research Update:

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Rationale

On Dec. 19, 2008, Standard & Poor's Ratings Services raised its counterparty rating on IBG LLC to 'BBB+' from 'BBB'. The outlook is stable. We took this action in recognition of the firm's meaningful and growing product line and geographic revenue diversity and strong profitability fundamentals, and management's demonstrated commitment to maintaining a conservative financial profile.

The ratings on IBG reflect the firm's strong market making and electronic brokerage franchises, and its solid financial profile, highlighted by consistently strong earnings, solid capitalization, and adequate liquidity. These strengths are partially offset by its business line concentration, correlation of margins to market volatility and volumes, and, in particular, the firm's exposure to model and key-man risk in the person of founder and CEO Thomas Peterffy.

IBG is a major global electronic market maker and broker, completing more than 900,000 trades per day in exchange-listed options, stocks, bonds, foreign exchange, and futures in more than 70 market centers worldwide. IBG operates two business segments, market making and electronic brokerage. The market making segment, Timber Hill, contributed 82% of the firm's pretax profit for the first nine months of 2008. Timber Hill uses proprietary computer models to make markets in thousands of individual options, stocks, exchange-traded funds, and futures. The company constantly monitors its trading inventory's market risk and rebalances its positions throughout the day to manage risk exposures. While the pricing model has an excellent long term track record, we believe IBG's reliance on it exposes the firm to a high degree of model risk.

The electronic brokerage segment, Interactive Brokers, provides some diversification to IBG's overall business profile. To date, IBG has a good track record of managing its risks, but we believe its continued expansion, particularly internationally, increases its exposure to operational and other risks.

The firm's very strong profitability is largely driven by trading volumes, market volatility, and competition among other market makers. IBG's trading results during the tumultuous second- and third-quarter 2008 demonstrated the extent to which its market making results are driven by volatility and volumes and not market direction. While Timber Hill's trading results do demonstrate some volatility, consolidated profitability measures, even in down quarters, remain adequate to support the rating. The company manages its revenue vulnerability by keeping a strict discipline in managing expenses; it strives to be the low-cost provider in all its businesses.

The financial profile is anchored by low leverage, a solid and growing equity base, and good risk-adjusted capital adequacy, even allowing for the substantial market risk involved in the firm's market making operations. Given

the relatively simple nature of IBG's balance sheet and the highly liquid nature of its securities inventory, we consider liquidity adequate for the rating.

Outlook

The outlook incorporates our expectation that IBG's operating performance may deteriorate somewhat but that it will remain strong. The firm's exceptional performance, particularly in the past two years, has allowed it to build up capital and buttress its financial profile against a potential less favorable operating environment. The outlook also reflects our expectation that IBG's brokerage business and international expansion will increasingly contribute to a diversified revenue stream and reduce dependence on U.S. options market volumes and equity market volatility. If IBG maintains its strong financial profile and continues to develop its diversification efforts, we could consider raising the rating. Conversely, material increases in leverage or decreases in liquidity could result in negative pressure on the rating.

Ratings List

Upgraded

	To	From
IBG LLC Counterparty Credit Rating	BBB+/Stable/--	BBB/Stable/--

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