

Interactive Brokers Group, Inc.  
Form 10-Q  
May 09, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10 Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to

Commission File Number: 001 33440

INTERACTIVE BROKERS GROUP, INC.

(Exact name of registrant as specified in its charter)

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Delaware 30 0390693  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

One Pickwick Plaza

Greenwich, Connecticut 06830

(Address of principal executive office)

(203) 618 5800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b 2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act). Yes No

As of May 7, 2018, there were 71,481,133 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding.



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QUARTERLY REPORT ON FORM 10 Q FOR THE QUARTER ENDED MARCH 31, 2018

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## PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (Unaudited)

Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition

(Unaudited)

(in millions, except share amounts)	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 1,901	\$ 1,732
Cash - segregated for regulatory purposes	7,515	6,547
Securities - segregated for regulatory purposes	12,753	13,685
Securities borrowed	2,968	2,957
Securities purchased under agreements to resell	677	2,035
Financial instruments owned, at fair value:		
Financial instruments owned	1,801	1,950
Financial instruments owned and pledged as collateral	614	1,204
Total financial instruments owned, at fair value	2,415	3,154
Receivables:		
Customers, less allowance for doubtful accounts of \$43 and \$40 as of March 31, 2018 and December 31, 2017	29,464	29,821
Brokers, dealers and clearing organizations	1,002	823
Interest	99	116
Total receivables	30,565	30,760

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Other assets	299	292
Total assets	\$ 59,093	\$ 61,162
Liabilities and equity		
Short-term borrowings	\$ 19	\$ 15
Securities loaned	4,171	4,444
Securities sold under agreements to repurchase	—	1,316
Financial instruments sold, but not yet purchased, at fair value	242	767
Payables:		
Customers	47,423	47,548
Brokers, dealers and clearing organizations	170	283
Affiliate	187	187
Accounts payable, accrued expenses and other liabilities	148	147
Interest	27	22
Total payables	47,955	48,187
Total liabilities	52,387	54,729
Commitments, contingencies and guarantees (see Note 12)		
Equity		
Stockholders' equity		
Common stock, \$0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 71,610,581 and 71,609,049 shares, Outstanding – 71,481,133 and 71,475,755 shares as of March 31, 2018 and December 31, 2017	1	1
Class B – Authorized, Issued and Outstanding – 100 shares as of March 31, 2018 and December 31, 2017	—	—
Additional paid-in capital	834	832
Retained earnings	290	251
Accumulated other comprehensive income, net of income taxes of \$1 and \$1 as of March 31, 2018 and December 31, 2017	10	9
Treasury stock, at cost, 129,448 and 133,294 shares as of March 31, 2018 and December 31, 2017	(3)	(3)
Total stockholders' equity	1,132	1,090
Noncontrolling interests	5,574	5,343
Total equity	6,706	6,433
Total liabilities and equity	\$ 59,093	\$ 61,162

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in millions, except share or per share amounts)	Three Months Ended March	
	31, 2018	2017
Revenues		
Commissions	\$ 220	\$ 154
Interest income	311	177
Trading gains	13	2
Other income	77	76
Total revenues	621	409
Interest expense	94	35
Total net revenues	527	374
Non-interest expenses		
Execution and clearing	73	61
Employee compensation and benefits	70	62
Occupancy, depreciation and amortization	12	13
Communications	6	8
General and administrative	23	16
Customer bad debt	3	1
Total non-interest expenses	187	161
Income before income taxes	340	213
Income tax expense	21	18
Net income	319	195
Less net income attributable to noncontrolling interests	273	171
Net income available for common stockholders	\$ 46	\$ 24
Earnings per share		
Basic	\$ 0.64	\$ 0.35
Diluted	\$ 0.63	\$ 0.34
Weighted average common shares outstanding		
Basic	71,475,950	67,985,107
Diluted	72,512,462	69,157,614

Comprehensive income		
Net income available for common stockholders	\$ 46	\$ 24
Other comprehensive income		
Cumulative translation adjustment, before income taxes	1	4
Income taxes related to items of other comprehensive income	—	—
Other comprehensive income, net of tax	1	4
Comprehensive income available for common stockholders	\$ 47	\$ 28
Comprehensive income attributable to noncontrolling interests		
Net income attributable to noncontrolling interests	\$ 273	\$ 171
Other comprehensive income - cumulative translation adjustment	7	19
Comprehensive income attributable to noncontrolling interests	\$ 280	\$ 190

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Three Months Ended March 31, 2018	2017
Cash flows from operating activities		
Net income	\$ 319	\$ 195
Adjustments to reconcile net income to net cash from operating activities		
Deferred income taxes	4	5
Depreciation and amortization	7	6
Employee stock plan compensation	14	13
Unrealized (gain) loss on other investments, net	(2)	—
Bad debt expense	3	1
Impairment loss	1	—
Change in operating assets and liabilities		
Securities - segregated for regulatory purposes	932	295
Securities borrowed	(11)	(294)
Securities purchased under agreements to resell	1,358	(1)
Financial instruments owned, at fair value	742	1,014
Receivables from customers	354	(1,865)
Other receivables	(162)	(17)
Other assets	(12)	(2)

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Securities loaned	(273)	(326)
Securities sold under agreement to repurchase financial instruments sold, but not yet purchased, at fair value	(1,316)	—
Payable to customers	(525)	(779)
Other payables	(125)	2,570
Net cash provided by operating activities	(107)	(36)
	1,201	779
Cash flows from investing activities		
Purchases of other investments	—	—
Distributions received and proceeds from sales of other investments	—	—
Purchase of property, equipment and intangible assets	(8)	(6)
Net cash used in investing activities	(8)	(6)
Cash flows from financing activities		
Short-term borrowings, net	4	(36)
Dividends paid to stockholders	(7)	(7)
Distributions to noncontrolling interests	(61)	(34)
Net cash used in financing activities	(64)	(77)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash		
	8	23
Net increase in cash, cash equivalents, and restricted cash	1,137	719
Cash, cash equivalents, and restricted cash at beginning of period	8,279	7,549
Cash, cash equivalents, and restricted cash at end of period	\$ 9,416	\$ 8,268
Cash, cash equivalents, and restricted cash		

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Cash and cash equivalents	1,901		1,656
Cash segregated for regulatory purposes	7,515		6,612
Cash, cash equivalents, and restricted cash at end of period	\$ 9,416	\$	8,268
Supplemental disclosures of cash flow information			
Cash paid for interest	\$ 89	\$	30
Cash paid for taxes, net	\$ 13	\$	7

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Equity

Three Months Ended March 31, 2018 and 2017

(Unaudited)

(in millions, except share amounts)	Common Stock			Treasury Stock	Retained Earnings	Accumulated		Non- controlling Interests	Total Equity
	Issued Shares	Par Value	Additional Paid-In Capital			Other Comprehen- sive	Total Equity		
Balance, January 1, 2018	71,609,049	\$ 1	\$ 832	\$ (3)	\$ 251	\$ 9	\$ 1,090	\$ 5,343	\$ 6,433
Common stock distributed pursuant to stock incentive plans	1,532						—		—
Compensation for stock grants vesting in the future			2				2	12	14
Dividends paid to stockholders					(7)		(7)		(7)
Distributions from IBG LLC to noncontrolling interests							—	(61)	(61)
Comprehensive income					46	1	47	280	327
Balance, March 31, 2018	71,610,581	\$ 1	\$ 834	\$ (3)	\$ 290	\$ 10	\$ 1,132	\$ 5,574	\$ 6,706

Common Stock	Additional	Accumulated Other	Total	Non-
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(in millions, except share amounts)	Issued Shares	Par Value	Paid-In Capital	Treasury Stock	Retained Earnings	Comprehensive Income	Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2017	68,119,412	\$ 1	\$ 775	\$ (3)	\$ 203	\$ (2)	\$ 974	\$ 4,846	\$ 5,820
Common stock distributed pursuant to stock incentive plans	1,962						—		—
Compensation for stock grants vesting in the future			2				2	11	13
Dividends paid to stockholders					(7)		(7)		(7)
Distributions from IBG LLC to noncontrolling interests							—	(34)	(34)
Comprehensive income					24	4	28	190	218
Balance, March 31, 2017	68,121,374	\$ 1	\$ 777	\$ (3)	\$ 220	\$ 2	\$ 997	\$ 5,013	\$ 6,010

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization of Business

Interactive Brokers Group, Inc. (“IBG, Inc.”) is a Delaware holding company whose primary asset is its ownership of approximately 17.4% of the membership interests of IBG LLC, which, in turn, owns operating subsidiaries (collectively, “IBG LLC”). IBG, Inc. together with IBG LLC and its consolidated subsidiaries (collectively, “the Company”), is an automated global electronic broker specializing in executing and clearing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 120 electronic exchanges and market centers around the world and offering custody, prime brokerage, securities and margin lending services to customers. In the United States of America (“U.S.”), the Company conducts its business primarily from its headquarters in Greenwich, Connecticut and from Chicago, Illinois. Abroad, the Company conducts its business through offices located in Canada, the United Kingdom, Switzerland, Liechtenstein, India, China (Hong Kong and Shanghai), Japan, and Australia. As of March 31, 2018, the Company had 1,252 employees worldwide.

IBG LLC is a Connecticut limited liability company that conducts its business through its operating subsidiaries (collectively, the “Operating Companies”): Interactive Brokers LLC (“IB LLC”); Interactive Brokers (U.K.) Limited and its subsidiary, Interactive Brokers (U.K.) Nominee Limited (collectively, “IBUK”); Interactive Brokers (India) Private Limited (“IBI”); Timber Hill LLC (“TH LLC”); Timber Hill Australia Pty Limited (“THA”); Timber Hill Canada Company (“THC”); Interactive Brokers Financial Products S.A. (“IBFP”); Interactive Brokers Software Services (India) Private Limited (“IBSSI”); IB Global Investments LLC (“IBGIL”); IB Exchange Corp. (“IBEC”) and its subsidiaries; Interactive Brokers Canada Inc. (“IBC”); Interactive Brokers Securities Japan, Inc. (“IBSJ”); Interactive Brokers Hong Kong Limited (“IBHK”); Interactive Brokers Australia Pty Limited and its subsidiary, Interactive Brokers Australia Nominees Pty Limited (collectively, “IBA”); IB Business Services (Shanghai) Company Limited (“IBBSS”); Timber Hill Europe AG and its subsidiary, Timber Hill (Liechtenstein) AG (collectively, “THE”); Interactive Brokers Hungary KFT (“IBH”); Interactive Brokers Software Services Estonia OU (“IBEST”); Interactive Brokers Software Services Russia (“IBRUS”); Interactive Brokers Corp. (“IB Corp”), Covestor, Inc. and its subsidiary, Covestor Limited (collectively, “Covestor”), and Greenwich Advisor Compliance Services Corp. (“Greenwich Compliance”).

The Company operates in two business segments: electronic brokerage and market making, both supported by corporate. The Company conducts its electronic brokerage business through certain Interactive Brokers subsidiaries, which provide electronic execution and clearing services to customers worldwide. The Company conducts its market making business principally through its Timber Hill subsidiaries and it currently consists of customer facilitation in products such as CFDs, ETFs and single stock futures, as well as exchange traded market making activities in a few select markets outside the U.S. (See Note 2 – Discontinued Operations and Costs Associated with Exit or Disposal Activities.) Corporate enables the Company to operate cohesively and effectively by providing support via development services and control functions to the business segments and also by executing the Company’s currency diversification strategy.

Certain of the Operating Companies are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region and are subject to regulatory capital and other requirements (see Note 14). IB LLC,

IBC, IBUK, IBSJ, IBHK, IBI and IBA carry securities accounts for customers or perform custodial functions relating to customer securities.

## 2. Significant Accounting Policies

### Basis of Presentation

These condensed consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with respect to Form 10 Q.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2017 Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 1, 2018. The condensed consolidated financial information as of December 31, 2017 has been derived from the audited consolidated financial statements not included herein.

These condensed consolidated financial statements include the accounts of the Company and its consolidated subsidiaries and reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the periods presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Principles of Consolidation, including Noncontrolling Interests

These condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over IBG LLC's operations. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation," the Company consolidates IBG LLC's financial statements and records the interests in IBG LLC that it does not own as noncontrolling interests.

The Company's policy is to consolidate all other entities in which it owns more than 50% unless it does not have control. All inter company balances and transactions have been eliminated.

Condensed Consolidated Statements of Cash Flows and Financial Condition Presentation Changes

On January 1, 2018, the Company adopted FASB Accounting Standards Update ("ASU") No. 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash" ("ASU 2016-18"). This accounting update requires an entity to include in its cash and cash equivalents amounts that are deemed to be restricted cash and to present a reconciliation of such amounts in the statement of cash flows. Restricted cash represents cash and cash equivalents that are subject to withdrawal or usage restrictions. For purposes of the condensed consolidated statements of cash flows, cash, cash equivalents, and restricted cash consist of "cash and cash equivalents" and "cash – segregated for regulatory purposes."

ASU 2016-18 also requires prior periods to be retrospectively adjusted to conform to the current period presentation. Upon adoption, the Company recorded an increase of \$988 million in net cash provided by operating activities, for the three months ended March 31, 2017 to reflect the reclassification of changes in restricted cash balances from the operating section to the cash, cash equivalent, and restricted cash balances within the condensed consolidated statements of cash flows.

In addition, the Company reclassified restricted cash amounts previously included within "cash and securities – segregated for regulatory purposes" into a separate line item, "cash – segregated for regulatory purposes," in the condensed consolidated statements of financial condition to be consistent with the presentation of restricted cash in the condensed consolidated statements of cash flows under ASU 2016-18. Previously reported amounts in the condensed consolidated statements of financial condition and notes to the condensed consolidated financial statements have been adjusted to conform to the current presentation.



Discontinued Operations and Costs Associated with Exit or Disposal Activities

On March 8, 2017, the Company announced its intention to discontinue its options market making activities globally. Additionally, as previously announced, on September 29, 2017 the Company completed the transfer of its U.S. options market making operations to Two Sigma Securities, LLC. The Company also exited the majority of its market making activities outside of the U.S. by December 31, 2017 and expects to report discontinued operations when it meets the criteria under FASB Topic ASC 205-20, "Discontinued Operations."

The Company recognized approximately \$25 million in one-time restructuring costs during the year ended December 31, 2017. The one-time restructuring costs included approximately \$22 million of non-cash expenditures, consisting of impairment of the carrying value of certain exchange trading rights and stock-based compensation and \$3 million of cash expenditures primarily related to severance costs for employee terminations.

During the three months ended March 31, 2018, the Company did not incur any additional restructuring costs. During the three months ended March 31, 2017, the Company recorded restructuring costs of approximately \$1 million for severance resulting from obligations related to employment terminations, included in employee compensation and benefits in the condensed consolidated statements of comprehensive income.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in these condensed consolidated financial statements and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Therefore, actual results could differ materially from those estimates. Such estimates include the allowance for doubtful accounts, valuation of certain investments, compensation accruals, current and deferred income taxes, costs associated with exit or disposal activities, and contingency reserves.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Fair Value

Substantially all of the Company's assets and liabilities, including financial instruments are carried at fair value based on published market prices and are marked to market, or are assets and liabilities which are short term in nature and are carried at amounts that approximate fair value.

The Company applies the fair value hierarchy in accordance with FASB ASC Topic 820, "Fair Value Measurement" ("ASC Topic 820"), to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Quoted prices for similar assets in an active market, quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to fair value measurement and unobservable. Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are generally classified as Level 1 of the fair value hierarchy. The Company's Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include active listed stocks, options, warrants and discount certificates, and U.S. and foreign government securities. The Company does not adjust quoted prices for financial instruments classified as Level 1 of the fair value hierarchy, even in the event that the Company may hold a large position whereby a purchase or sale could reasonably impact quoted prices.

Currency forward contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 of the fair value hierarchy since inputs to their valuation can be generally corroborated by market data. Other securities that are not traded in active markets are also classified as Level 2 of the fair value hierarchy. Level 3 financial instruments are comprised of securities that have been delisted or otherwise are no longer tradable in active markets and have been valued by the Company based on internal estimates.

Earnings per Share

Earnings per share ("EPS") is computed in accordance with FASB ASC Topic 260, "Earnings per Share." Basic EPS is computed by dividing the net income available for common stockholders by the weighted average number of shares outstanding for that period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of the basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under the Company's stock-based compensation plans, with no adjustments to net income available for common

stockholders for dilutive potential common shares.

#### Stock Based Compensation

The Company follows FASB ASC Topic 718, "Compensation - Stock Compensation" ("ASC Topic 718"), to account for its stock based compensation plans. ASC Topic 718 requires all share based payments to employees to be recognized in the condensed consolidated financial statements using a fair value based method. Grants, which are denominated in U.S. dollars, are communicated to employees in the year of grant, thereby establishing the fair value of each grant. The fair value of awards granted to employees are generally expensed as follows: 50% in the year of grant in recognition of the plans' post-employment provisions (as described below) and the remaining 50% over the related vesting period utilizing the "graded vesting" method permitted under ASC Topic 718. In the case of "retirement eligible" employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under stock based compensation plans are subject to the plans' post-employment provisions in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company without cause and continue to meet the terms of the plans' post employment provisions will be eligible to earn 50% of previously granted but not yet earned awards, unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of previously granted but not yet earned awards.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits with banks and all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing houses.

Cash and Securities - Segregated for Regulatory Purposes

As a result of customer activities, certain Operating Companies are obligated by rules mandated by their primary regulators to segregate or set aside cash or qualified securities to satisfy such regulations, which have been promulgated to protect customer assets. Securities segregated for regulatory purposes consisted of U.S. government securities of \$4.5 billion and \$4.5 billion as of March 31, 2018 and December 31, 2017, respectively, and securities purchased under agreements to resell in the amount of \$8.3 billion and \$9.2 billion as of March 31, 2018 and December 31, 2017, respectively, which amounts approximate fair value.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are recorded at the amount of the cash collateral advanced or received. Securities borrowed transactions require the Company to provide counterparties with collateral, which may be in the form of cash, letters of credit or other securities. With respect to securities loaned, the Company receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually. It is the Company's policy to net, in the condensed consolidated statements of financial condition, securities borrowed and securities loaned entered into with the same counterparty that meet the offsetting requirements prescribed in FASB ASC Topic 210-20, "Balance Sheet – Offsetting" ("ASC Topic 210-20").

Securities lending fees received and paid by the Company are included in interest income and interest expense, respectively, in the condensed consolidated statements of comprehensive income.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and securities sold under agreements to repurchase, which are reported as collateralized financing transactions, are recorded at contract value, which approximates fair value. To ensure that the fair value of the underlying collateral remains sufficient, the collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. It is the Company's policy to net, in the condensed consolidated statements of financial condition, securities purchased under agreements to resell transactions and securities sold under agreements to repurchase transactions entered into with the same counterparty that meet the offsetting requirements prescribed in ASC Topic 210-20.

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instrument transactions are accounted for on a trade date basis. Financial instruments owned and financial instruments sold, but not yet purchased are stated at fair value based upon quoted market prices, or if not available, are valued by the Company based on internal estimates (see Fair Value above). The Company's financial instruments pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the financial instruments are reported as financial instruments owned and pledged as collateral in the condensed consolidated statements of financial condition.

#### Customer Receivables and Payables

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are recorded as customer bad debt expense in the condensed consolidated statements of comprehensive income.

#### Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations include net receivables and payables from unsettled trades, including amounts related to futures and options on futures contracts executed on behalf of customers, amounts receivable for securities not delivered by the Company to the purchaser by the settlement date ("fails to deliver") and cash deposits. Payables to brokers, dealers and clearing organizations also include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive").

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Investments

The Company makes certain strategic investments related to its business and accounts for these investments (a) under the equity method of accounting as required under FASB ASC Topic 323, “Investments - Equity Method and Joint Ventures” or (b) at fair value or, if the investment in equity securities does not have a readily determinable fair value, at historical cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer in accordance with FASB ASC Topic 321, “Investments in Equity Securities.”

Investments accounted for under the equity method, including where the investee is a limited partnership or limited liability company, are recorded at the fair value amount of the Company’s initial investment and are adjusted each period for the Company’s share of the investee’s income or loss. The Company’s share of the income or losses from equity method investments is included in other income in the condensed consolidated statements of comprehensive income. The recorded amounts of the Company’s equity method investments, \$23 million as of March 31, 2018 (\$23 million as of December 31, 2017), which are included in other assets in the condensed consolidated statements of financial condition, increase or decrease accordingly. Contributions paid to and distributions received from equity method investees are recorded as additions or reductions, respectively, to the respective investment balance.

Investments in equity securities that do not qualify for equity method accounting are recorded at historical cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The recorded amounts of the Company’s investments in such equity securities, \$5 million as of March 31, 2018 (\$5 million as of December 31, 2017) are included in other assets in the condensed consolidated statements of financial condition. Dividends received from these investments are included in other income in the condensed consolidated statements of comprehensive income when such dividends are received.

The Company also holds exchange memberships and investments in equity securities of certain exchanges, as required to qualify as a clearing member. Such investments, \$5 million as of March 31, 2018 (\$6 million as of December 31, 2017), are recorded at cost less impairment, and are included in other assets in the condensed consolidated statements of financial condition. Dividends received from these investments are included in other income in the condensed consolidated statements of comprehensive income when such dividends are received.

A judgmental aspect of accounting for investments is evaluating whether a decline in the value of an investment has occurred. The evaluation of an impairment is dependent on specific quantitative and qualitative factors and circumstances surrounding an investment, including recurring operating losses, credit defaults and subsequent rounds of financing. The Company’s equity investments do not have readily determinable market values. All investments are reviewed for changes in circumstances or occurrence of events that suggest the Company’s investment may not be recoverable. An impairment loss, if any, is recognized in the period the determination is made.

Property, Equipment, and Intangible Assets

Property, equipment, and intangible assets, which are included in other assets in the condensed consolidated statements of financial condition, consist of leasehold improvements, computer equipment, software developed for the Company's internal use, office furniture, equipment and acquired technology.

Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight line method. Equipment is depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Computer equipment is depreciated over three to five years and office furniture and equipment are depreciated over five to seven years. Intangible assets with a finite life are amortized on a straight line basis over their estimated useful lives of three years, and tested for recoverability whenever events indicate that the carrying amounts may not be recoverable. Qualifying costs for internally developed software are capitalized and amortized over the expected useful life of the developed software, not to exceed three years. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the condensed consolidated statements of financial condition and any resulting gain or loss is recorded in other income in the condensed consolidated statements of comprehensive income. Fully depreciated (or amortized) assets are retired on an annual basis.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Comprehensive Income and Foreign Currency Translation

The Company's operating results are reported in the condensed consolidated statements of comprehensive income pursuant to FASB ASC Topic 220, "Comprehensive Income."

Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). The Company's OCI is comprised of gains and losses resulting from translating foreign currency financial statements of non-U.S. subsidiaries, net of related income taxes, where applicable. In general, the practice and intention of the Company is to reinvest the earnings of its non U.S. subsidiaries in those operations, therefore tax is usually not accrued on OCI.

The Company's non U.S. domiciled subsidiaries have a functional currency that is other than the U.S. dollar. Such subsidiaries' assets and liabilities are translated into U.S. dollars at period end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Adjustments that result from translating amounts from a subsidiary's functional currency to the U.S. dollar (as described above) are reported net of tax, where applicable, in accumulated OCI in the condensed consolidated statements of financial condition.

Revenue Recognition

Commissions

Commissions earned for executing and/or clearing transactions are accrued on a trade date basis and are reported as commissions in the condensed consolidated statements of comprehensive income. See Note 8 for further information on revenue from contracts with customers.

Interest Income and Expense

The Company earns interest income and incurs interest expense primarily in connection with its electronic brokerage customer business and its securities lending activities, which are recorded on an accrual basis and are included in interest income and interest expense, respectively, in the condensed consolidated statements of comprehensive income.

Trading Gains

Trading gains and losses are recorded on trade date and are reported on a net basis. Trading gains and losses are comprised of changes in the fair value of financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value (i.e., unrealized gains and losses) and realized gains and losses related to the Company's market making business segment. Included in trading gains are net gains and losses on stocks, U.S. and foreign government securities, options, futures, foreign exchange and other derivative instruments. Dividends are integral to the valuation of stocks and interest is integral to the valuation of fixed income instruments. Accordingly, both dividends and interest income and expense attributable to financial instruments owned, at fair value and financial



instruments sold, but not yet purchased, at fair value are reported on a net basis in trading gains in the condensed consolidated statements of comprehensive income.

#### Foreign Currency Gains and Losses

Foreign currency balances are assets and liabilities in currencies other than the Company's functional currency. At every reporting date, the Company revalues its foreign currency balances to its functional currency at the spot exchange rate and records the associated foreign currency gains and losses. These foreign currency gains and losses are reported in the condensed consolidated statements of comprehensive income, as follows: (a) foreign currency gains and losses related to the Company's currency diversification strategy are reported in other income; (b) foreign currency gains and losses related to the market making core-business activities are reported in trading gains; (c) foreign currency gains and losses arising from currency swap transactions in the electronic brokerage business are reported in interest income; and (d) all other foreign currency gains and losses are reported in other income.

#### Rebates

Rebates consist of volume discounts, credits or payments received from exchanges or other market centers related to the placement and/or removal of liquidity from the order flow in the marketplace and are recorded on an accrual basis. Rebates are recorded net within execution and clearing expenses in the condensed consolidated statements of comprehensive income. Rebates received for trades executed on behalf of customers that elect tiered pricing are passed, in whole or part, to these customers; and such pass-through amounts are recorded net within commissions in the condensed consolidated statements of comprehensive income.

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Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, “Income Taxes” (“ASC Topic 740”). The Company’s income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws (see Note 11) and reflect management’s best assessment of estimated future taxes to be paid. The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Determining income tax expense requires significant judgments and estimates.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statements recognition of underlying assets and liabilities. In evaluating the ability to recover deferred tax assets within the jurisdictions from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and results of recent operations. In projecting future taxable income, historical results are adjusted for changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

The calculation of the Company’s tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company’s global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted, significantly revising the U.S corporate income tax law by, among other things, reducing the corporate income tax rate from 35% to 21% and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries (see Note 11).

The Company records tax liabilities in accordance with ASC Topic 740 and adjusts these liabilities when management’s judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in payments that are different from the current estimates of these tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information becomes available.

The Company recognizes a tax benefit from an uncertain tax position only when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. A tax position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement.

The Company recognizes interest related to income tax matters as interest income or interest expense and penalties related to income tax matters as income tax expense in the condensed consolidated statements of comprehensive

income.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Recently Issued Accounting Pronouncements

Following is a summary of recently issued FASB Accounting Standards Updates (“ASUs”) that have affected or may affect the Company’s condensed consolidated financial statements:

	Affects	Status
ASU 2016-02	Leases (Topic 842): Requires the recognition of a right-of-use asset and a lease liability for leases previously classified as operating lease in the statements of financial condition.	Effective for fiscal years beginning after December 15, 2018.
ASU 2016-13	Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.	Effective for fiscal years beginning after December 15, 2019.
ASU 2017-04	Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.	Effective for fiscal years beginning after December 15, 2019.
ASU 2017-08	Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Amending the amortization period for certain purchased callable debt securities held at a premium.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2017-11	Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815): changing the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2017-12	Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.	Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.
ASU 2018-02	Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.	Effective for fiscal years and first interim periods beginning after December 15, 2018.
ASU 2018-03	Technical Correction and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.	Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years beginning

after June 15, 2018.

Adoption of those ASUs that became effective during 2017 and 2018, prior to the issuance of the Company's condensed consolidated financial statements, had no material effect on these financial statements, except for as described in the notes to these financial statements.

### 3. Trading Activities and Related Risks

The Company's trading activities include providing securities brokerage and market making services. Trading activities expose the Company to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. To accomplish this, management has established a risk management process that includes:

- a regular review of the risk management process by executive management as part of its oversight role;
- defined risk management policies and procedures supported by a rigorous analytic framework; and

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Interactive Brokers Group, Inc. and Subsidiaries

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•articulated risk tolerance levels as defined by executive management that are regularly reviewed to ensure that the Company's risk taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

Market Risk

The Company is exposed to various market risks. Exposures to market risks arise from equity price risk, foreign currency exchange rate fluctuations and changes in interest rates. The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price and spread movements of trading inventories and related financing and hedging activities. The Company uses a combination of cash instruments and exchange traded derivatives to hedge its market exposures. The Company does not apply hedge accounting. The following discussion describes the types of market risk faced:

Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. The Company is subject to equity price risk primarily in financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value. The Company attempts to limit such risks by continuously reevaluating prices and by diversifying its portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security.

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The Company manages this risk using spot (i.e., cash) currency transactions, currency futures contracts and currency forward contracts. As a global electronic broker and market maker trading on exchanges around the world in multiple currencies, the Company is exposed to foreign currency risk. The Company actively manages its currency exposure using a currency diversification strategy that is based on a defined basket of 14 currencies internally referred to as the "GLOBAL." These strategies minimize the fluctuation of the Company's net worth as expressed in GLOBALs, thereby diversifying its risk in alignment with these global currencies, weighted by the Company's view of their importance. As the Company's financial results are reported in U.S. dollars, the change in the value of the GLOBAL as expressed in U.S. dollars affects the Company's earnings. The impact of this currency diversification strategy in the Company's earnings is included in other income in the condensed consolidated statements of comprehensive income. In light of the Company's decision to discontinue its options market making activities globally, the Company removed the Singapore dollar (SGD) and realigned the relative weight of the U.S. dollar (USD) versus the other currency components to better reflect its businesses going forward. The new composition went into effect as of the close of business on March 31, 2017.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk on cash and margin balances, positions carried in equity and fixed income securities, options, futures and on its borrowings. These risks are managed through investment policies and by entering into interest rate futures contracts.

#### Credit Risk

The Company is exposed to risk of loss if an individual, counterparty or issuer fails to perform its obligations under contractual terms (“default risk”). Both cash instruments and derivatives expose the Company to default risk. The Company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

The Company’s credit risk is limited in that substantially all of the contracts entered into are settled directly at securities and commodities clearing houses and a small portion is settled through member firms and banks with substantial financial and operational resources. The Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

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Notes to Unaudited Condensed Consolidated Financial Statements

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities which exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities fails to receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities fails to receive, the Company may purchase the underlying security in the market and seek reimbursement for any losses from the counterparty.

For cash management purposes, the Company enters into short term securities purchased under agreements to resell and securities sold under agreements to repurchase transactions (“repos”) in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Company attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Company as permitted under contractual provisions.

Concentrations of Credit Risk

The Company’s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of March 31, 2018, the Company did not have any material concentrations of credit risk outside the ordinary course of business.

Off Balance Sheet Risks

The Company may be exposed to a risk of loss not reflected in the condensed consolidated financial statements to settle futures and certain over the counter contracts at contracted prices, which may require repurchase or sale of the underlying products in the market at prevailing prices. Accordingly, these transactions result in off balance sheet risk as the Company’s cost to liquidate such contracts may exceed the amounts reported in the Company’s condensed consolidated statements of financial condition.

4. Equity and Earnings per Share



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In connection with IBG, Inc.'s initial public offering of Class A common stock ("IPO") in May 2007, it purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC ("Holdings"), became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. Holdings owns all of IBG, Inc.'s Class B common stock, which has voting rights in proportion to its ownership interests in IBG LLC. The table below shows the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of March 31, 2018.

	IBG, Inc.	Holdings	Total
Ownership %	17.4%	82.6%	100.0%
Membership interests	71,481,136	340,229,444	411,710,580

These condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC and its subsidiaries. The noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of total equity in the condensed consolidated statements of financial condition.

### Recapitalization and Post IPO Capital Structure

Immediately prior to and immediately following the consummation of the IPO, IBG, Inc., Holdings, IBG LLC and the members of IBG LLC consummated a series of transactions collectively referred to herein as the "Recapitalization." In connection with the Recapitalization, IBG, Inc., Holdings and the historical members of IBG LLC entered into an exchange agreement, dated as of May 3, 2007 (the "Exchange Agreement"), pursuant to which the historical members of IBG LLC received membership interests in Holdings in exchange for their membership interests in IBG LLC. Additionally, IBG, Inc. became the sole managing member of IBG LLC.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

In connection with the consummation of the IPO, Holdings used the net proceeds to redeem 10.0% of members' interests in Holdings in proportion to their interests. Immediately following the Recapitalization and IPO, Holdings owned approximately 90% of IBG LLC and 100% of IBG, Inc.'s Class B common stock, which has voting power in IBG, Inc. in proportion to Holdings' ownership of IBG LLC.

Since consummation of the IPO and Recapitalization, IBG, Inc.'s equity capital structure has been comprised of Class A and Class B common stock. All shares of common stock have a par value of \$0.01 per share and have identical rights to earnings and dividends and in liquidation. As of March 31, 2018 and December 31, 2017, 1,000,000,000 shares of Class A common stock were authorized, of which 71,610,581 and 71,609,049 shares have been issued; and 71,481,133 and 71,475,755 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of March 31, 2018 and December 31, 2017, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of March 31, 2018 and December 31, 2017, respectively.

As a result of a federal income tax election made by IBG LLC applicable to the acquisition of IBG LLC member interests by IBG, Inc., the income tax basis of the assets of IBG LLC acquired by IBG, Inc. have been adjusted based on the amount paid for such interests. Deferred tax assets were recorded as of the IPO date and in connection with subsequent redemptions of Holdings member interests in exchange for common stock. These deferred tax assets are included in other assets in the Company's condensed consolidated statements of financial condition and are being amortized as additional deferred income tax expense over 15 years from the IPO date and from the additional redemption dates, respectively, as allowable under current tax law. As of March 31, 2018 and December 31, 2017, the unamortized balance of these deferred tax assets was \$142 million and \$146 million, respectively.

IBG, Inc. also entered into an agreement (the "Tax Receivable Agreement") with Holdings to pay Holdings (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of tax basis increases. These payables to Holdings are reported as payable to affiliate in the Company's condensed consolidated statements of financial condition. The remaining 15% is accounted for as a permanent increase to additional paid in capital in the Company's condensed consolidated statements of financial condition.

The cumulative amounts of deferred tax assets, payables to Holdings and additional paid in capital arising from stock offerings from the date of the IPO through March 31, 2018 were \$483 million, \$410 million, and \$73 million, respectively. Amounts payable under the Tax Receivable Agreement are payable to Holdings annually following the filing of IBG, Inc.'s federal income tax return. The Company has paid Holdings a cumulative total of \$131 million through March 31, 2018 pursuant to the terms of the Tax Receivable Agreement.

The Exchange Agreement, as amended, provides for future redemptions of member interests and for the purchase of member interests in IBG LLC by IBG, Inc. from Holdings, which could result in IBG, Inc. acquiring the remaining member interests in IBG LLC that it does not own. On an annual basis, members of Holdings are able to request redemption of their interests.

At the time of IBG, Inc.'s IPO in 2007, three hundred sixty (360) million shares of authorized common stock were reserved for future sales and redemptions. From 2008 through 2010, Holdings redeemed 5,013,259 IBG LLC interests with a total value of \$114 million, which redemptions were funded using cash on hand at IBG LLC. Upon cash redemption these IBG LLC interests were retired. From 2011 through 2017, IBG, Inc. issued 13,858,355 shares of common stock (with a fair value of \$410 million) directly to Holdings in exchange for an equivalent number of member interests in IBG LLC.

As a consequence of these redemption transactions, and distribution of shares to employees (see Note 10), IBG, Inc.'s interest in IBG LLC has increased to approximately 17.4%, with Holdings owning the remaining 82.6% as of March 31, 2018. The redemptions also resulted in an increase in the Holdings interest held by Mr. Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 89.2% as of March 31, 2018.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Earnings per Share

Basic earnings per share is calculated utilizing net income available for common stockholders divided by the weighted average number of shares of Class A and Class B common stock outstanding for that period.

	Three Months Ended March 31,	
	2018	2017
	(in millions, except share or per share amounts)	
Basic earnings per share		
Net income available for common stockholders	\$ 46	\$ 24
Weighted average shares of common stock outstanding		
Class A	71,475,850	67,985,007
Class B	100	100
	71,475,950	67,985,107
Basic earnings per share	\$ 0.64	\$ 0.35

Diluted earnings per share are calculated utilizing the Company's basic net income available for common stockholders divided by diluted weighted average shares outstanding with no adjustments to net income available to common stockholders for potentially dilutive common shares.

	Three Months Ended March 31,	
	2018	2017
	(in millions, except share or per share amounts)	
Diluted earnings per share		
Net income available for common stockholders	\$ 46	\$ 24
Weighted average shares of common stock outstanding		
Class A		
Issued and outstanding	71,475,850	67,985,007
Potentially dilutive common shares		
Issuable pursuant to employee stock incentive plans	1,036,512	1,172,507
Class B	100	100

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	72,512,462	69,157,614
Diluted earnings per share	\$ 0.63	\$ 0.34

Member Distributions and Stockholder Dividends

During the three months ended March 31, 2018, IBG LLC made distributions totaling \$74 million, to its members, of which IBG, Inc.'s proportionate share was \$13 million. For the three months ended March 31, 2018, the Company paid quarterly cash dividends of \$0.10 per share of common stock, totaling \$7 million.

On April 17, 2018, the Company declared a cash dividend of \$0.10 per common share, payable on June 14, 2018 to stockholders of record as of June 1, 2018.

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Notes to Unaudited Condensed Consolidated Financial Statements

## 5. Comprehensive Income

The following table presents comprehensive income and earnings per share on comprehensive income:

	Three Months Ended March 31,	
	2018	2017
	(in millions, except share or per share amounts)	
Comprehensive income available for common stockholders	\$ 47	\$ 28
Earnings per share on comprehensive income		
Basic	\$ 0.66	\$ 0.41
Diluted	\$ 0.65	\$ 0.40
Weighted average common shares outstanding		
Basic	71,475,950	67,985,107
Diluted	72,512,462	69,157,614

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

## 6. Financial Assets and Financial Liabilities

## Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables set forth, by level within the fair value hierarchy (see Note 2), financial assets and liabilities, measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

Financial Assets At Fair Value  
as of March 31, 2018

	Level 1	Level 2	Level 3	Total
	(in millions)			
Securities segregated for regulatory purposes	\$ 4,472	\$ —	\$ —	\$ 4,472
Financial instruments owned, at fair value				
Stocks	1,604	—	1	1,605
Options	731	—	—	731
Warrants and discount certificates	2	—	—	2
U.S. and foreign government securities	72	—	—	72
Corporate and municipal bonds	—	1	3	4
Currency forward contracts	—	1	—	1
Total financial instruments owned, at fair value	2,409	2	4	2,415
Total financial assets at fair value	\$ 6,881	\$ 2	\$ 4	\$ 6,887

Financial Liabilities At Fair  
Value as of March 31, 2018

Level 1	Level 2	Level 3	Total
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(in millions)

Financial instruments sold, but not yet purchased, at fair value				
Stocks	\$ 181	\$ —	\$ —	\$ 181
Options	56	—	—	56
Currency forward contracts	—	5	—	5
Total financial instruments sold, but not yet purchased, at fair value	237	5	—	242
Total financial liabilities at fair value	\$ 237	\$ 5	\$ —	\$ 242



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Financial Assets At Fair Value				
as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
(in millions)				
Securities segregated for regulatory purposes	\$ 4,519	\$ —	\$ —	\$ 4,519
Financial instruments owned, at fair value				
Stocks	2,000	—	1	2,001
Options	1,052	—	—	1,052
Warrants and discount certificates	5	—	—	5
U.S. and foreign government securities	60	—	—	60
Corporate and municipal bonds	—	1	3	4
Currency forward contracts	—	32	—	32
Total financial instruments owned, at fair value	3,117	33	4	3,154
Total financial assets at fair	\$ 7,636	\$ 33	\$ 4	\$ 7,673

value

	Financial Liabilities At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Financial instruments sold, but not yet purchased, at fair value				
Stocks	\$ 302	\$ —	\$ —	\$ 302
Options	464	—	—	464
Currency forward contracts	—	1	—	1
Total financial instruments sold, but not yet purchased, at fair value	766	1	—	767
Total financial liabilities at fair value	\$ 766	\$ 1	\$ —	\$ 767
Transfers between Level 1 and Level 2				

Transfers of financial assets and financial liabilities at fair value to or from Levels 1 and 2 arise where the market for a specific financial instrument has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period. During the three months ended March 31, 2018 and 2017, there were no transfers between levels for financial assets and liabilities, at fair value.

#### Level 3 Financial Assets and Financial Liabilities

The Company's Level 3 financial assets are comprised of delisted and illiquid securities reported within financial instruments owned, at fair value in the condensed consolidated statements of financial condition. During the three months ended March 31, 2018, financial assets included \$1 million in stocks and \$3 million in corporate and municipal bonds, which were not traded in active markets and were valued by the Company based on internal estimates. During the three months ended March 31, 2017, there were no transfers between levels for financial assets and liabilities, at fair value.

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Trading Gains from Market Making Transactions

Trading gains and losses from market making transactions reported in the condensed consolidated statements of comprehensive income, by major product type, are comprised of:

	Three Months Ended March 31, 2018 2017 (in millions)	
Equities	\$ 13	\$ 3
Fixed income	—	—
Foreign exchange	—	(1)
Total trading gains, net	\$ 13	\$ 2

These transactions are related to the Company's financial instruments owned and financial instruments sold, but not yet purchased, at fair value and include both derivative and non-derivative financial instruments, including exchange traded options and futures. These gains and losses also include market making related dividend and fixed income trading related interest income and expense.

The gains (losses) in the table above are not representative of the integrated trading strategies applied by the Company, which utilizes financial instruments across various product types. Gains and losses in one product type frequently offset gains and losses in other product types.

Financial Assets and Liabilities Not Measured at Fair Value

The following tables represent the carrying value, fair value, and fair value hierarchy category of certain financial assets and liabilities that are not recorded at fair value in the Company's condensed consolidated statements of financial condition. The following table excludes certain financial instruments such as equity investments and all non-financial assets and liabilities:

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March 31, 2018  
 Carrying Value    Fair Value    Level 1    Level 2    Level 3

(in millions)

Financial assets, not measured at fair value					
Cash and cash equivalents	\$ 1,901	\$ 1,901	\$ 1,901	\$ -	\$ -
Cash - segregated for regulatory purposes	7,515	7,515	7,515	-	-
Securities - segregated for regulatory purposes	8,281	8,281	-	8,281	-
Securities borrowed	2,968	2,968	-	2,968	-
Securities purchased under agreements to resell	677	677	-	677	-
Receivables from customer	29,464	29,464	-	29,464	-
Receivables from broker, dealers, and clearing organizations	1,002	1,002	-	1,002	-
Interest receivable	99	99	-	99	-
Other assets	5	6	-	6	-
Total financial assets, not measured at fair value	\$ 51,912	\$ 51,913	\$ 9,416	\$ 42,497	\$ -

Financial liabilities, not measured at fair value					
Short-term borrowings	\$ 19	\$ 19	\$ -	\$ 19	\$ -
Securities loaned	4,171	4,171	-	4,171	-
Securities sold under agreements to repurchase	-	-	-	-	-
Payables to customer	47,423	47,423	-	47,423	-
Payables to brokers, dealers and clearing organizations	170	170	-	170	-
Interest payable	27	27	-	27	-
Total financial liabilities, not measured at fair value	\$ 51,810	\$ 51,810	\$ -	\$ 51,810	\$ -

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Notes to Unaudited Condensed Consolidated Financial Statements

	December 31, 2017				
	Carrying	Fair			Level
	Value	Value	Level 1	Level 2	3
	(in millions)				
Financial assets, not measured at fair value					
Cash and cash equivalents	\$ 1,732	\$ 1,732	\$ 1,732	\$ -	\$ -
Cash - segregated for regulatory purposes	6,547	6,547	6,547	-	-
Securities - segregated for regulatory purposes	9,166	9,166	-	9,166	-
Securities borrowed	2,957	2,957	-	2,957	-
Securities purchased under agreements to resell	2,035	2,035	-	2,035	-
Receivables from customer	29,821	29,821	-	29,821	-
Receivables from broker, dealers, and clearing organizations	823	823	-	823	-
Interest receivable	116	116	-	116	-
Other assets	6	6	-	6	-
Total financial assets, not measured at fair value	\$ 53,203	\$ 53,203	\$ 8,279	\$ 44,924	\$ -
Financial liabilities, not measured at fair value					
Short-term borrowings	\$ 15	\$ 15	\$ -	\$ 15	\$ -
Securities loaned	4,444	4,444	-	4,444	-
Securities sold under agreements to repurchase	1,316	1,316	-	1,316	-
Payables to customer	47,548	47,548	-	47,548	-
Payables to brokers, dealers and clearing organizations	283	283	-	283	-
Interest payable	22	22	-	22	-
Total financial liabilities, not measured at fair value	\$ 53,628	\$ 53,628	\$ -	\$ 53,628	\$ -

Netting of Financial Assets and Financial Liabilities

It is the Company's policy to net securities borrowed and securities loaned, and securities purchased under agreements to resell and securities sold under agreements to repurchase that meet the offsetting requirements prescribed in ASC Topic 210-20. In the tables below, the amounts of financial instruments that are not offset in the condensed consolidated statements of financial condition, but could be netted against cash or financial instruments with specific counterparties under master netting agreements, according to the terms of the agreements, including clearing houses (exchange traded options, warrants and discount certificates) or over the counter currency forward contract counterparties, are presented to provide financial statement readers with the Company's net payable or receivable with counterparties for these financial instruments.

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Notes to Unaudited Condensed Consolidated Financial Statements

The following tables set forth the netting of financial assets and of financial liabilities as of March 31, 2018 and December 31, 2017:

	March 31, 2018		Net	Amounts		
	Gross	Amounts	Amounts	Not Offset		
	Amounts	Offset in	Presented in	in the		
	of Financial	the	the	Condensed		
	Assets and	Condensed	Condensed	Statement		
	Liabilities	Statement	Consolidated	of Financial		
	Recognized	of	Statement of	Financial	Net	
		Financial	Financial	Instruments	Amount	
		Condition	Condition			
		2				
	(in millions)					
Offsetting of Financial Assets						
Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 8,281	1	\$ —	\$ 8,281	\$ (8,281)	\$ —
Securities borrowed	2,968		—	2,968	(2,856)	112
Securities purchased under agreements to resell	677		—	677	(677)	—
Financial Instruments owned, at fair value						
Options	731		—	731	(56)	675
Warrants and discount certificates	2		—	2	—	2
Currency forward contracts	1		—	1	—	1
Total	\$ 12,660	\$ —	\$ —	\$ 12,660	\$ (11,870)	\$ 790

(in millions)

Offsetting of Financial Liabilities					
Securities loaned	\$ 4,171	\$ —	\$ 4,171	\$ (4,020)	\$ 151
Securities sold under agreements to repurchase	—	—	—	—	—

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Financial instruments sold, but not yet purchased, at fair value

Options	56	—	56	(56)	—
Warrants and discount certificates	—	—	—	—	—
Currency forward contracts	5	—	5	—	5
Total	\$ 4,232	\$ —	\$ 4,232	\$ (4,076)	\$ 156

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		December 31, 2017		Net	Amounts	
Gross	Amounts	Net	Amounts	Amounts	Not Offset	
Amounts	Offset in	Amounts	Presented in	Presented in	in the	
of Financial	the	of Financial	the	the	Condensed	
Assets and	Consolidated	Consolidated	Consolidated	Consolidated	Statement	
Liabilities	Statement	Statement of	Statement of	Statement of	of Financial	
Recognized	of	Financial	Financial	Financial	Condition	
Condition	Financial	Condition	Condition	Condition	Cash or	
2	2	2	2	2	Financial	
					Instruments	Net
						Amount

(in millions)

## Offsetting of Financial Assets

Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 9,166	1	\$ —	\$ 9,166	\$ (9,166)	\$ —
Securities borrowed	2,957		—	2,957	(2,822)	135
Securities purchased under agreements to resell	2,035		—	2,035	(2,035)	—
Financial Instruments owned, at fair value						
Options	1,052		—	1,052	(451)	601
Warrants and discount certificates	5		—	5	—	5
Currency forward contracts	32		—	32	—	32
Total	\$ 15,247		\$ —	\$ 15,247	\$ (14,474)	\$ 773

(in millions)

## Offsetting of Financial Liabilities

Securities loaned	\$ 4,444	\$ —	\$ 4,444	\$ (4,201)	\$ 243
Securities sold under agreements to repurchase	1,316		1,316	(1,316)	
Financial instruments sold, but not yet purchased, at fair value					

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Options	464	—	464	(451)	13
Warrants and discount certificates	—	—	—	—	—
Currency forward contracts	1	—	1	—	1
Total	\$ 6,225	\$ —	\$ 6,225	\$ (5,968)	\$ 257

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- (1) As of March 31, 2018 and December 31, 2017, the Company had \$8.3 billion and \$9.2 billion, respectively, of securities purchased under agreements to resell that were segregated to satisfy regulatory requirements. These securities are included in “securities - segregated for regulatory purposes” in the condensed consolidated statements of financial condition.
- (2) The Company did not have any balances eligible for netting in accordance with ASC Topic 210-20 at March 31, 2018 and December 31, 2017.

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Secured Financing Transactions – Maturities and Collateral Pledged

The following tables present gross obligations for securities loaned transactions by remaining contractual maturity and class of collateral pledged as of March 31, 2018 and December 31, 2017:

	March 31, 2018				
	Remaining Contractual Maturity				
	Overnight	Less than 30 days	30 – 90 days	Over 90 days	Total
	(in millions)				
Securities loaned					
Stocks	\$ 4,109	\$ -	\$ -	\$ -	\$ 4,109
Corporate bonds	57	-	-	-	57
Foreign government securities	5	-	-	-	5
Total securities loaned	\$ 4,171	\$ -	\$ -	\$ -	\$ 4,171

	December 31, 2017			
	Remaining Contractual Maturity			
	Overnight	Less than 90 days	30 – 90 days	Over 90 days

	and Open	30 days	days	days	Total
	(in millions)				
Securities Loaned					
Stocks	\$ 4,389	\$ -	\$ -	\$ -	\$ 4,389
Corporate bonds	55	-	-	-	55
Total securities loaned	4,444	-	-	-	4,444
Securities sold under agreements to repurchase					
U.S. government securities	1,316	-	-	-	1,316
Total	\$ 5,760	\$ -	\$ -	\$ -	\$ 5,760

## 7. Collateralized Transactions

The Company enters into securities borrowing and lending transactions and agreements to repurchase and resell securities to finance trading inventory, to obtain securities for settlement and to earn residual interest rate spreads. In addition, the Company's customers pledge their securities owned to collateralize margin loans. Under these transactions, the Company either receives or provides collateral, including equity, corporate debt and U.S. government securities. Under typical agreements, the Company is permitted to sell or repledge securities received as collateral and use these securities to secure securities purchased under agreements to resell, enter into securities lending transactions or deliver these securities to counterparties to cover short positions.

The Company also engages in securities financing transactions with and for customers through margin lending. Customer receivables generated from margin lending activity are collateralized by customer owned securities held by the Company. Customers' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to the Company's policy and as enforced by such systems, customers are required to deposit additional collateral or reduce positions, when necessary to avoid automatic liquidation of their positions.

Margin loans are extended to customers on a demand basis and are not committed facilities. Factors considered in the acceptance or rejection of margin loans are the amount of the loan, the degree of leverage being employed in the customer account and an overall evaluation of the customer's portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral. Additionally, transactions relating to concentrated or restricted positions are limited or prohibited by raising the level of required margin collateral (to 100% in the extreme case). Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Company's collateral policies significantly limits the Company's credit exposure to margin loans in the event of a

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customer's default. Under margin lending agreements, the Company may request additional margin collateral from customers and may sell securities that have not been paid for or purchase securities sold but not delivered from customers, if necessary. As of March 31, 2018 and December 31, 2017, approximately \$29.5 billion and \$29.8 billion, respectively, of customer margin loans were outstanding.

The following table summarizes the amounts related to collateralized transactions as of March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Permitted to Repledge	Sold or Repledged	Permitted to Repledge	Sold or Repledged
	(in millions)			
Securities lending transactions	\$ 23,556	\$ 3,346	\$ 23,662	\$ 3,041
Securities purchased under agreements to resell transactions (1)	8,976	8,976	11,231	11,231
Customer margin assets	29,412	7,520	30,236	9,013
	\$ 61,944	\$ 19,842	\$ 65,129	\$ 23,285

(1) As of March 31, 2018, \$8.3 billion or 92% (as of December 31, 2017, \$9.2 billion or 82%) of securities acquired through agreements to resell that are shown as repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements. As of March 31, 2018 and December 31, 2017, the majority of the Company's U.S. and foreign government securities owned were pledged to clearing organizations.

Financial instruments owned and pledged as collateral, including amounts pledged to affiliates, where the counterparty has the right to repledge, as of March 31, 2018 and December 31, 2017 are presented in the following table:

	March	December
	31,	31,
	2018	2017

(in millions)

Stocks	\$ 553	\$ 1,150
U.S. and foreign government securities	61	54
	\$ 614	\$ 1,204

## 8. Revenues from Contracts with Customers

### Adoption

On January 1, 2018, the Company adopted ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASC Topic 606”) using the modified retrospective method (i.e., applied prospectively effective January 1, 2018 without revising prior periods), which had no impact on the Company’s opening retained earnings.

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised services to the customers. A service is transferred to a customer when, or as, the customer obtains control of that service. A performance obligation may be satisfied at a point in time or over time. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised service. Revenue from a performance obligation satisfied over time is recognized by measuring the Company’s progress in satisfying the performance obligation in a manner that depicts the transfer of the services to the customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for those promised services (i.e., the “transaction price”). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration, if any.

The Company’s revenues from contracts with customers are recognized when the performance obligations are satisfied at an amount that reflects the consideration expected to be received in exchange for such services. The majority of the Company’s performance obligations are satisfied at a point in time and are typically collected from customers by debiting their brokerage account with the Company.



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Notes to Unaudited Condensed Consolidated Financial Statements

Nature of Services

The Company's services under contracts with customers are mainly related to its electronic brokerage business. The Company's main sources of revenues from contracts with customers are as follows:

- Commissions are charged to customers for order execution services and trade clearing and settlement services. The Company recognizes revenue at the time of execution of the order (i.e., trade date). Commissions are generally collected from cleared customers on trade date and from non-cleared customers monthly.
- Market data fees are charged to customers for market data services to which they subscribe, that are delivered by the Company. The Company recognizes revenue monthly and collects the fees monthly, in arrears.
- Risk exposure fees are charged to customers who carry positions with market risk that exceeds defined thresholds. The Company recognizes revenue and collects the fees daily.
- Payments for order flow are earned from various options exchanges based upon options trading volume originated by the Company that meets certain criteria. The Company recognizes revenue daily. Payments for order flow are collected monthly, in arrears.
- Minimum activity fees – are charged to customers that do not generate the required minimum monthly commission. The Company recognizes revenue monthly and collects the fees monthly, in arrears.

The Company's electronic brokerage business also earns revenues from other services, including order cancellation or modification fees, position transfer fees, telecommunications fees, withdrawal fees, and bank sweep program fees, among others.

Disaggregation of Revenue



The following table sets forth revenue from contracts with customers by business segment, geographic location, and major types of services for the three months ended March 31, 2018, as follows:

	Three Months Ended March 31, 2018			
	Electronic brokerage	Market making	Corporate	Total
	(in millions)			
Geographic location 1				
United States	\$ 182	\$ 2	\$ -	\$ 184
International	72	-	-	72
	\$ 254	\$ 2	\$ -	\$ 256
Major types of services				
Commissions	\$ 220	\$ -	\$ -	\$ 220
Market data fees 2	11	-	-	11
Risk exposure fees 2	8	-	-	8
Payments for order flow 2	5	-	-	5
Minimum activity fees 2	5	-	-	5
Other 2	5	2	-	7
	\$ 254	\$ 2	\$ -	\$ 256

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(1) Based on the location of the subsidiaries in which the revenues are recorded.

(2) Included in other income on the condensed consolidated statements of comprehensive income.

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Receivables and Contract Balances

Receivables arise when the Company has an unconditional right to receive payment under a contract with a customer and are derecognized when the cash is received. Receivables of \$12 million, as of March 31, 2018, are reported in other assets in the condensed consolidated statements of financial condition.

Contract assets arise when the revenue associated with the contract is recognized prior to the Company's unconditional right to receive payment under a contract with a customer (i.e., unbilled receivable) and are derecognized when either it becomes a receivable or the cash is received. Contract assets are reported in other assets in the condensed consolidated statements of financial condition. As of March 31, 2018, contract asset balances were not material.

Contract liabilities arise when customers remit contractual cash payments in advance of the Company satisfying its performance obligations under the contract and are derecognized when the revenue associated with the contract is recognized either when a milestone is met triggering the contractual right to bill the customer or when the performance obligation is satisfied. Contract liabilities are reported in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. As of March 31, 2018, contract liability balances were not material.

9. Other Income

The components of other income for the three months ended March 31, 2018 and 2017 were:

	Three Months Ended March 31, 2018	2017
--	---	------

	(in millions)	
Market data fees <sup>1</sup>	\$ 11	\$ 9
Minimum activity fees <sup>1</sup>	5	5
Risk exposure fees <sup>1</sup>	8	5
Payments for order flow <sup>1</sup>	5	4
Gains on financial instruments, at fair value and other investments, net	2	2
Gains from currency diversification strategy, net	38	49
Other, net	8	2
	\$ 77	\$ 76

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(1) See Note 8 for description of these revenues.

Gains on financial instruments, at fair value and other investments, net include (1) realized and unrealized gains and losses on financial instruments that (a) are held for purposes other than the Company's market making activities, (b) are subject to restrictions, or (c) are accounted for under the equity method and (2) dividends on investments accounted at cost less impairment.

## 10. Employee Incentive Plans

### Defined Contribution Plan

The Company offers substantially all employees of U.S.-based Operating Companies who have met minimum service requirements the opportunity to participate in defined contribution retirement plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code. The general purpose of this plan is to provide employees with an incentive to make regular savings in order to provide additional financial security during retirement. This plan provides for the Company to match 50% of the employees' pre-tax contribution, up to a maximum of 10% of eligible earnings. The employee is vested in the matching contribution incrementally over six years of service. Included in employee compensation and benefits expenses in the condensed consolidated statements of comprehensive income were \$1 million of plan contributions for each of the three months ended March 31, 2018 and 2017.

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2007 ROI Unit Stock Plan

In connection with the IPO, the Company adopted the IBG, Inc. 2007 ROI Unit Stock Plan (“ROI Unit Stock Plan”). An aggregate of 1,271,009 shares of restricted common stock (consisting of 1,250,000 shares issued under the ROI Unit Stock Plan and 21,009 shares under the 2007 Stock Incentive Plan, as described below), with a fair value at the date of grant of \$38 million were issued to IBG LLC and held as treasury stock.

As of March 31, 2018, the Company has distributed all shares of restricted common stock under the ROI Unit Stock Plan.

2007 Stock Incentive Plan

In 2017, the Company amended the 2007 Stock Incentive Plan (the “Stock Incentive Plan”) to extend its term for a ten-year period through April 24, 2027, which was approved by the Company’s stockholders at its 2018 Annual Meeting, held on April 19, 2018. Under the Company’s Stock Incentive Plan, up to 30 million shares of the Company’s common stock may be issued to satisfy vested restricted stock units granted to directors, officers, employees, contractors and consultants of the Company. The purpose of the Stock Incentive Plan is to promote the Company’s long term financial success by attracting, retaining, and rewarding eligible participants.

As a result of the Company’s organizational structure, a description of which can be found in “Business – Our Organizational Structure” in Part I Item 1 of the Company’s Annual Report on Form 10-K, there is no dilutive effect upon ownership of common stockholders of issuing shares under the Stock Incentive Plan. The issuances do not dilute the book value of the ownership of common stockholders since the restricted stock units are granted at market value, and upon their vesting and the related issuance of shares of common stock, the ownership of IBG, Inc. in IBG LLC, increases proportionately to the shares issued. As a result of such proportionate increase in share ownership, the dilution upon issuance of common stock is borne by IBG LLC’s majority member (i.e., noncontrolling interest), Holdings, and not by IBG, Inc. or its common stockholders. Additionally, dilution of earnings that may take place after issuance of common stock is reflected in EPS reported in the Company’s financial statements. The EPS dilution can be neither estimated nor projected, but historically it has not been material.

The Stock Incentive Plan is administered by the Compensation Committee of the Company’s Board of Directors. The Compensation Committee has discretionary authority to determine the eligibility to participate in the Stock Incentive Plan and establishes the terms and conditions of the awards, including the number of awards granted to each participant and all other terms and conditions applicable to such awards in individual grant agreements. Awards are expected to be made primarily through grants of restricted stock units. Stock Incentive Plan awards are subject to issuance over time. All previously granted but not yet earned awards may be cancelled by the Company upon the participant’s termination of employment or violation of certain applicable covenants prior to issuance, unless determined otherwise by the Compensation Committee.

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but not yet earned awards under the Stock Incentive Plan, or provide that any such granted but not yet earned awards will be honored or assumed, or new rights substituted by the new employer on a substantially similar basis and on terms and conditions substantially comparable to those of the Stock Incentive Plan.

The Company expects to continue to grant awards on or about December 31 of each year to eligible participants as part of an overall plan of equity compensation. Restricted stock units vest and become distributable to participants in accordance with the following schedule:

- 10% on the first vesting date, which is on or about May 9 of each year; and
- an additional 15% on each of the following six anniversaries of the first vesting, assuming continued employment with the Company and compliance with non-competition and other applicable covenants.

Awards granted to external directors vest, and are distributed, over a five year period (20% per year) commencing one year after the date of grant. A total of 24,263 restricted stock units have been granted to the external directors cumulatively since the plan's inception.

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Stock Incentive Plan awards granted (excluding 21,009 shares issued pursuant to the ROI Unit Stock Plan described above) and the related fair values since the plan's inception are presented in the table below:

	Units	Fair Value at Date of Grant (\$ millions)
Prior periods (since inception)	20,888,468	\$ 397
December 31, 2015	1,211,533	52
December 31, 2016	1,451,136	55
December 31, 2017	941,742	1/2 56
	24,492,879	\$ 560

(1) Stock Incentive Plan number of granted restricted stock units related to 2017 was adjusted by 18,335 additional restricted stock units during the three months ended March 31, 2018.

(2) Granted under the Company's amended 2007 Stock Incentive Plan, which was approved by the Company's stockholders at its 2018 Annual Meeting, held on April 19, 2018.

Estimated future grants under the Stock Incentive Plan are accrued for ratably during each year (see Note 2). In accordance with the vesting schedule, outstanding awards vest and are distributed to participants yearly on or about May 9 of each year. At the end of each year, there are no vested awards that remain undistributed.

Compensation expense related to the Stock Incentive Plan recognized in the condensed consolidated statements of comprehensive income was \$14 million, and \$13 million for the three months ended March 31, 2018 and 2017, respectively. Estimated future compensation costs for unvested awards, net of credits for cancelled awards, as of March 31, 2018 are \$34 million.

The following summarizes the Stock Incentive Plan and ROI Unit Stock Plan activities from December 31, 2017 through March 31, 2018:

	Stock Incentive Plan Units		ROI Unit Stock Plan Shares
Balance, December 31, 2017	6,468,973	1/2	3,849
Granted	—		—
Cancelled	(11,637)		—
Distributed	(1,532)		(3,849)
Balance, March 31, 2018	6,455,804		—

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- (1) Stock Incentive Plan number of granted restricted stock units related to 2017 was adjusted by 18,335 additional restricted stock units during the three months ended March 31, 2018.
  - (2) Includes 941,742 restricted stock units granted under the Company's amended 2007 Stock Incentive Plan, which was approved by the Company's stockholders at its 2018 Annual Meeting, held on April 19, 2018.

Awards previously granted but not yet earned under the stock plans are subject to the plans' post-employment provisions in the event a participant ceases employment with the Company. Through March 31, 2018, a total of 578,574 restricted stock units have been distributed under these post employment provisions. These distributions are included in the table above.

#### 11. Income Taxes

Income tax expense for the three months ended March 31, 2018 and 2017 differs from the U.S. federal statutory rate primarily due to the taxation treatment of income attributable to noncontrolling interests in IBG LLC and the enactment of the Tax Act, as discussed below. These noncontrolling interests are subject to U.S. taxation as partnerships. Accordingly, the income attributable to these noncontrolling interests is reported in the condensed consolidated statements of comprehensive income, but the related U.S. income tax expense attributable to these noncontrolling interests is not reported by the Company as it is the obligation of the individual members. Income tax expense is also affected by the differing effective tax rates in foreign, state and local jurisdictions where certain of the Company's subsidiaries are subject to corporate taxation.

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Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the common stock offerings (see Note 4), differences in the valuation of financial assets and liabilities, and for other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for accounting and income tax return purposes.

The Tax Act, as previously described, makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate to 21%, effective January 1, 2018; (2) requiring a one-time transition tax on certain undistributed earnings of foreign subsidiaries to be paid over eight years; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (“AMT”) and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax, a new minimum tax; (7) creating a new limitation on deductible interest expense; (8) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (9) repealing the Section 199 manufacturing deduction; and (10) full expensing of qualified property for tax return purposes.

The SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment of the Tax Act for entities to complete the accounting under ASC Topic 740. In accordance with SAB 118, an entity must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC Topic 740 is complete. To the extent that an entity’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, the entity must record a provisional estimate on its financial statements. However, if an entity cannot determine a provisional estimate to be included on its financial statements, the entity should continue to apply ASC Topic 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The Company’s accounting for the following elements of the Tax Act is incomplete. However, the Company has made reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

Reduction of U.S. federal corporate tax rate: The Tax Act reduces the corporate tax rate to 21%, effective January 1, 2018. For certain of the Company’s deferred tax assets and liabilities, the Company recognized a provisional net decrease of \$115 million with a corresponding adjustment to deferred income tax expense (or deferred tax benefit) for the year ended December, 31, 2017. As of March 31, 2018, the Company has not made any adjustments to the



provisional amount recorded as of December 31, 2017. While the Company has made a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, the calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences. The Company is still analyzing certain aspects of the Tax Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

**Deemed Repatriation Transition Tax:** The Deemed Repatriation Transition Tax (“Transition Tax”) is a tax on previously untaxed accumulated and current earnings of certain foreign subsidiaries. To determine the amount of the Transition Tax, the Company must determine, in addition to other factors, the amount of post-1986 earnings of the relevant foreign subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. As of December 31, 2017, the Company recognized a provisional Transition Tax obligation of \$62 million and for the three months ended March 31, 2018, has not made any adjustments to the provisional amount recorded. This amount may change when the calculation of post-1986 foreign earnings and profits previously deferred from U.S. federal taxation and the amounts held in cash or other specified assets are finalized. The Company does not expect any significant changes, but it is continuing to gather additional information to more precisely compute the amount of the Transition Tax.

The Tax Act creates a new requirement that global intangible low taxed income (“GILTI”) earned by controlled foreign corporations (“CFC”s) must be included currently in the gross income of the CFC’s U.S. shareholder. GILTI is the excess of the shareholder’s “net CFC-tested income” over the deemed tangible income return, which is currently defined as the excess of (1) 10 percent of the aggregate of the U.S shareholder’s pro rata share of the qualified business asset investment in each CFC with respect to which it is a U.S shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income. Under U.S. GAAP, the Company is allowed to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into the Company’s measurement of its deferred taxes (the “deferred method”). The Company selected the period cost method.

As of and for the three months ended March 31, 2018 and 2017, the Company had no unrecognized tax and no valuation allowances on deferred tax assets were required. The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. As of March 31, 2018, the Company is no longer subject to U.S. Federal and State income tax examinations for tax years prior to 2010, and to non-U.S. income tax examinations for tax years prior to 2008.

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As of March 31, 2018, accumulated earnings held by non U.S. subsidiaries totaled \$1.1 billion (as of December 31, \$1.1 billion). Of this amount, approximately \$0.4 billion (as of December 31, 2017 \$0.3 billion) is attributable to earnings of the Company's foreign subsidiaries that are considered "pass through" entities for U.S. income tax purposes. Since the Company accounts for U.S. income taxes on these earnings on a current basis, no additional U.S. tax consequences would result from the repatriation of these earnings other than that which would be due arising from currency fluctuations between the time the earnings are reported for U.S. tax purposes and when they are remitted. With respect to certain of these subsidiaries' accumulated earnings (approximately \$0.2 billion and \$0.2 billion as of March 31, 2018 and December 31, 2017, respectively), repatriation would result in additional foreign taxes in the form of dividend withholding tax imposed on the recipient of the distribution or dividend distribution tax imposed on the payor of the distribution. The Company has not provided for its proportionate share of these additional foreign taxes as it does not intend to repatriate these earnings in the foreseeable future. For the same reason, the Company has not provided deferred U.S. tax on cumulative translation adjustments associated with these earnings.

12. Commitments, Contingencies and Guarantees

Litigation

The Company is subject to certain pending and threatened legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. The Company has not been able to quantify the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Management believes that the resolution of these actions will not have a material effect, if any, on the Company's business or financial condition, but may have a material impact on the results of operations for a given period.

The Company accounts for potential losses related to litigation in accordance with FASB ASC Topic 450, "Contingencies." As of March 31, 2018 and 2017, reserves provided for potential losses related to litigation matters were not material.

Trading Technologies Matter

On February 3, 2010, Trading Technologies International, Inc. (“Trading Technologies”) filed a complaint in the U.S. District Court for the Northern District of Illinois, Eastern Division, against IBG, Inc., IBG LLC, Holdings, and IB LLC. Thereafter, Trading Technologies dismissed IBG, Inc. and Holdings from the case, leaving only IBG LLC and IB LLC as defendants (“Defendants”). The operative complaint, as amended, alleges that the Defendants have infringed and continue to infringe twelve U.S. patents held by Trading Technologies. Trading Technologies is seeking, among other things, unspecified damages and injunctive relief (“the Litigation”). The Defendants filed an answer to Trading Technologies’ amended complaint, as well as related counterclaims. The Defendants deny Trading Technologies’ claims, assert that the asserted patents are not infringed and are invalid, and assert several other defenses as well. Trading Technologies also filed patent infringement lawsuits against approximately a dozen other companies in the same court. The Litigation was consolidated with the other lawsuits filed by Trading Technologies.

The Defendants and/or certain codefendants filed petitions with the United States Patent and Trademark Office (“USPTO”) for Covered Business Method Review (“CBM Review”) on the asserted patents. The District Court granted the Defendants’ motion to stay the Litigation pending the CBM Reviews. The USPTO Patent Trial Appeal Board found ten of the twelve asserted patents to be not patentable and two patents to be patentable. The Defendants have filed appeals on the claims that were held to be patentable.

It is difficult to predict the outcome of the matter, however, the Company believes it has meritorious defenses to the allegations made in the complaint and intends to defend itself vigorously against them. However, litigation is inherently uncertain and there can be no guarantee that the Company will prevail or that the Litigation can be settled on favorable terms.

#### Class Action Matter

On December 18, 2015, a former individual customer filed a purported class action complaint against IB LLC, IBG, Inc., and Thomas Frank, PhD, the Company’s Executive Vice President and Chief Information Officer, in the U.S. District Court for the District of Connecticut. The complaint alleges that the former customer and members of the purported class of IB LLC’s customers were harmed by alleged “flaws” in the computerized system used by the Company to close out (i.e., liquidate) positions in customer brokerage accounts that have margin deficiencies. The complaint seeks, among other things, undefined compensatory damages and declaratory and injunctive relief.



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On February 19, 2016, the Company filed a motion to dismiss the class action complaint. On September 28, 2016, the Court issued an order granting the Company's motion to dismiss and dismissing the complaint in its entirety, and without providing plaintiff leave to amend. On October 5, 2016, the Court entered judgment in the Company's favor. On October 12, 2016, plaintiff filed motions for leave to file an amended complaint and to vacate or amend judgment. On November 14, 2016, plaintiff also filed a motion to disqualify the district judge. The Company opposed all three motions. In memoranda of decision dated August 29, 2017 and September 5, 2017, the Court denied the motions. On September 28, 2017, plaintiff appealed the order of dismissal and subsequent judgment to the United States Court of Appeals for the Second Circuit. On January 9, 2018, the plaintiff filed his appellate brief. The Company filed its opposition brief on April 10, 2018. The Company believes that the appeal, like the original complaint, lacks merit. Further, even if the Court's dismissal were to be overturned on appeal, the Company does not believe that a purported class action is appropriate given the great differences in portfolios, markets and many other circumstances surrounding the liquidation of any particular customer's margin-deficient account. IB LLC and the related defendants intend to continue to defend themselves vigorously against the case and, consistent with past practice in connection with this type of unwarranted action, any potential claims for counsel fees and expenses incurred in defending the case shall be fully pursued against the plaintiff.

Guarantees

Certain of the Operating Companies provide guarantees to securities and commodities clearing houses and exchanges which meet the accounting definition of a guarantee under FASB ASC Topic 460, "Guarantees." Under standard membership agreements, clearing house and exchange members are required to guarantee collectively the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations, other members would be required to meet shortfalls. In the opinion of management, the Operating Companies' liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the potential for these Operating Companies to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the condensed consolidated statements of financial condition for these arrangements.

In connection with its retail brokerage business, IB LLC or other electronic brokerage Operating Companies perform securities and commodities execution, clearance and settlement on behalf of their customers for whom they commit to settle trades submitted by such customers with the respective clearing houses. If a customer fails to fulfill its settlement obligations, the respective Operating Company must fulfill those settlement obligations. No contingent liability is carried on the condensed consolidated statements of financial condition for such customer obligations.

Other Commitments

Certain clearing houses, clearing banks and firms used by certain Operating Companies are given a security interest in certain assets of those Operating Companies held by those clearing organizations. These assets may be applied to satisfy the obligations of those Operating Companies to the respective clearing organizations.

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13. Segment and Geographic Information

The Company has two operating business segments: electronic brokerage and market making. These segments are supported by the corporate segment, which provides centralized services and executes the Company's currency diversification strategy.

The Company conducts its electronic brokerage business through certain Interactive Brokers subsidiaries, which provide electronic trade execution and clearing services to customers worldwide. The Company conducts its remaining market making business (see Note 2 – Discontinued Operations and Costs Associated with Exit or Disposal Cost) principally through its Timber Hill subsidiaries on some of the world's leading exchanges and market centers, primarily in exchange traded equities, equity options and equity index options and futures.

Significant transactions and balances between the Operating Companies occur, primarily as a result of certain Operating Companies holding exchange or clearing organization memberships, which are utilized to provide execution and clearing services to affiliates. Charges for transactions between segments are designed to approximate full costs. Intra segment and intra region income and expenses and related balances have been eliminated in this segment and geographic information to reflect the external business conducted in each segment or geographic region. Corporate items include non allocated corporate income and expenses that are not attributed to segments for performance measurement, net gains and losses on positions held as part of the Company's overall currency diversification strategy, corporate assets and eliminations.

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three months ended March 31, 2018, and 2017, and total assets as of March 31, 2018 and December 31, 2017:

Three Months  
Ended March  
31,  
2018 2017

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	(in millions)	
Net revenues		
Electronic brokerage	\$ 465	\$ 314
Market making	21	8
Corporate	41	52
Total net revenues	\$ 527	\$ 374
Income before income taxes		
Electronic brokerage	\$ 291	\$ 185
Market making	9	(22)
Corporate	40	50
Total income before income taxes	\$ 340	\$ 213

	March	December
	31,	31,
	2018	2017

	(in millions)	
Segment assets		
Electronic brokerage	\$ 57,316	\$ 58,787
Market making	3,618	8,469
Corporate	(1,841)	(6,094)
Total assets	\$ 59,093	\$ 61,162

The Company operates its automated global business in the U.S. and international markets on more than 120 electronic exchanges and market centers. A significant portion of the Company's net revenues are generated by subsidiaries operating outside the U.S. International operations are comprised of electronic brokerage and market making activities in 29 countries in Europe, Asia and the Americas (outside the U.S.). The following table presents total net revenues and income before income taxes by geographic area for the three months ended March 31, 2018 and 2017. The geographic analysis presented below is based on the location of the subsidiaries in which the transactions are recorded. This geographic information does not reflect the way the Company's business is managed.



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	Three Months Ended March 31, 2018 2017 (in millions)	
Net revenues		
United States	\$ 420	\$ 303
International	107	71
Total net revenues	\$ 527	\$ 374
Income before income taxes		
United States	\$ 294	\$ 195
International	46	18
Total income before income taxes	\$ 340	\$ 213

## 14. Regulatory Requirements

As of March 31, 2018, aggregate excess regulatory capital for all of the Operating Companies was \$5.2 billion.

IB LLC, TH LLC and IB Corp are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, IB LLC is also subject to the Commodities and Futures Trading Commission's minimum financial requirements (Regulation 1.17), and THE is subject to the Swiss Financial Market Supervisory Authority eligible equity requirement. IBA is subject to the Australian Securities Exchange liquid capital requirement, THLI is subject to the Financial Market Authority Liechtenstein eligible capital requirements, THC and IBC are subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the U.K. Financial Conduct Authority Capital Requirements Directive, IBHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, IBI is subject to the National Stock Exchange of India net capital requirements and IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements. The following table summarizes capital, capital requirements and excess regulatory capital:

	Net Capital/ Eligible Equity	Requirement	Excess
	(in millions)		
IB LLC	\$ 4,230	\$ 458	\$ 3,772
TH LLC	232	-	232
THE	640	98	542
Other regulated Operating Companies	796	130	666
	\$ 5,898	\$ 686	\$ 5,212

Regulatory capital requirements could restrict the Operating Companies from expanding their business and declaring dividends if their net capital does not meet regulatory requirements. Also, certain Operating Companies are subject to other regulatory restrictions and requirements.

As of March 31, 2018, all of the regulated Operating Companies were in compliance with their respective regulatory capital requirements.

#### 15. Related Party Transactions

Receivable from affiliate, reported in other assets in the condensed consolidated statement of financial condition, represents amounts advanced to Holdings and payable to affiliate represents amounts payable to Holdings under the Tax Receivable Agreement (see Note 4).

Included in receivables from and payables to customers in the condensed consolidated statements of financial condition as of March 31, 2018 and December 31, 2017 were accounts receivable from directors, officers and their affiliates of \$350 million and \$250 million and payables of \$825 million and \$648 million, respectively. The Company may extend credit to these related parties in connection with margin loans. Such loans are (i) made in the ordinary course of business, (ii) are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the

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Notes to Unaudited Condensed Consolidated Financial Statements

company, and (iii) do not involve more than the normal risk of collectability or present other unfavorable features.

16. Subsequent Events

As required by FASB ASC Topic 855, "Subsequent Events," the Company has evaluated subsequent events for adjustment to or disclosure in its condensed consolidated financial statements through the date the condensed consolidated financial statements were issued.

Except as disclosed in Note 4, Note 10 and Note 12, no other recordable or disclosable events occurred.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10 K filed with the Securities Exchange Commission ("SEC") on March 1, 2018 and elsewhere in this report.

## Introduction

Interactive Brokers Group, Inc. (the "Company" or "IBG, Inc.") is a holding company whose primary asset is its ownership of approximately 17.4% of the membership interests of IBG LLC. The remaining approximately 82.6% of IBG LLC membership interests are held by IBG Holdings LLC ("Holdings"), a holding company that is owned by our founder, Chairman and Chief Executive Officer, Mr. Thomas Peterffy and his affiliates, management and other employees of IBG LLC, and certain other members. The table below shows the amount of IBG LLC membership interests held by IBG, Inc. and Holdings as of March 31, 2018.

	IBG, Inc.	Holdings	Total
Ownership %	17.4%	82.6%	100.0%
Membership interests	71,481,136	340,229,444	411,710,580

We are an automated global electronic broker and market maker (although, we have substantially exited our options market making business - see Note 2 - Discontinued Operations and Costs Associated with Exit or Disposal Activities to the condensed consolidated financial statements elsewhere in this report). We custody and service accounts for hedge and mutual funds, registered investment advisers, proprietary trading groups, introducing brokers and individual investors. We specialize in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 120 electronic exchanges and market centers around the world. Since our inception in 1977, we have focused on developing proprietary software to automate broker dealer functions. The proliferation of electronic exchanges over nearly the last three decades has provided us with the opportunity to

integrate our software with an increasing number of exchanges and market centers into one automatically functioning, computerized platform that requires minimal human intervention.

When we use the terms “we,” “us,” and “our,” we mean IBG, Inc. and its subsidiaries for the periods presented.

## Business Segments

We report our results in two operating business segments, electronic brokerage and market making (being discontinued). These segments are analyzed separately as these are the two principal business activities from which we derive our revenues and to which we allocate resources.

**Electronic Brokerage.** We conduct our electronic brokerage business through certain Interactive Brokers (“IB”) subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on our proprietary technology originally developed for our market making business, IB’s systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies from a single trading account. We offer our customers access to all classes of tradable, primarily exchange listed products, including stocks, bonds, options, futures, forex and mutual funds traded on more than 120 exchanges and market centers in 30 countries and in 23 currencies seamlessly around the world. The emerging complexity of multiple market centers has provided us with the opportunity of building and continuously adapting our order routing software to secure excellent execution prices.

Our customer base is diverse with respect to geography and segments. Currently, more than half of our customers reside outside the U.S. in over 200 countries and territories, and over 50% of new customers come from outside the U.S. Approximately 69% of our customers’ equity is in institutional accounts such as hedge funds, financial advisors, proprietary trading desks and introducing brokers. Specialized products and services that we have developed are successfully attracting these accounts. For example, we offer prime brokerage services, including capital introduction and securities lending to hedge funds; our model portfolio technology and automated share allocation and rebalancing tools are particularly attractive to financial advisors; and our trading platform and low pricing attract introducing brokers.

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We provide a host of analytical tools such as Investors' Marketplace<sup>SM</sup>, which allows wealth advisors to search for money managers and assign them to customer accounts based on their investment strategy. EmployeeTrack<sup>SM</sup> is widely used by compliance officers of financial institutions to streamline the process of tracking their employees' brokerage activities. The Probability Lab<sup>®</sup> allows our customers to analyze option strategies under various market assumptions. Risk Navigator<sup>SM</sup> is a real-time market risk management platform which allows our customers to measure risk exposure across multiple asset classes around the globe. Portfolio Builder<sup>SM</sup> allows our customers to set up an investment strategy based on research and rankings from top research providers and fundamental data. IB Asset Management recruits registered financial advisors, vets them, analyzes their investment track records, groups them by their risk profile, and allows retail investors to assign their accounts to be traded by one or more advisors. In addition, our Greenwich Compliance affiliate offers direct expert registration and start-up compliance services, as well as answers to basic day-to-day compliance questions for experienced investors and traders looking to start their own investment advisor firms. Greenwich Compliance professionals have regulatory and industry experience, and they can help investment advisors trading on the IB platform meet their registration and compliance needs. Our Interactive Brokers Debit Mastercard<sup>®</sup> allows customers to spend and borrow directly against their account and to make purchases and ATM withdrawals anywhere Debit Mastercard<sup>®</sup> is accepted around the world. Our Insured Bank Deposit Sweep Program provides customers with up to \$2,500,000 of FDIC insurance on their eligible cash balances in addition to the existing \$250,000 SIPC coverage, for a maximum coverage of \$2,750,000.

**Market Making.** On March 8, 2017 we announced our intention to discontinue our options market making activities globally. As previously announced, we transferred our U.S. options market making operations to Two Sigma Securities, LLC effective September 29, 2017 and also exited the majority of our options market making activities outside the U.S. by December 31, 2017. We intend to continue conducting certain proprietary trading activities in stocks and related instruments to facilitate our electronic brokerage customers' trading in products such as ETFs, ADRs, CFDs and other financial instruments, as well as exchange traded market making activities in a few select markets outside of the U.S. However, we do not expect the facilitation activity to be of sufficient size as to require reporting as a separate segment after we discontinue our options market making activities.

We conduct our market making business primarily through our Timber Hill subsidiaries. As a market maker, in the few select markets in which we operate, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of tradable, exchange listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. Our entire portfolio is evaluated many times per second and continuously rebalanced throughout the trading day, thus minimizing the risk of our portfolio at all times.

The operating business segments are supported by our corporate segment which provides centralized services and executes our currency diversification strategy.

## Financial Overview

**First Quarter Results:** Diluted earnings per share were \$0.63 for the quarter ended March 31, 2018 ("current quarter"), compared to diluted earnings per share of \$0.34 for the quarter ended March 31, 2017 ("prior year quarter"). The

calculation of diluted earnings per share is detailed in Note 4 to the condensed consolidated financial statements, elsewhere in this report.

On a comprehensive basis, which includes other comprehensive income (“OCI”), diluted earnings per share were \$0.65 for the current quarter, compared to diluted earnings per share of \$0.40 for the prior year quarter.

In connection with our currency diversification strategy, we determine our net worth in GLOBALs, a basket of 14 major currencies in which we hold our equity. As a result, as of March 31, 2018, approximately 31% of our equity was denominated in currencies other than the U.S. dollar. In the current quarter, our currency diversification strategy increased our comprehensive earnings by \$46 million (compared to an increase of \$73 million in the prior year quarter), as the U.S. dollar value of the GLOBAL increased by approximately 0.73%, compared to its value as of December 31, 2017. The effects of our currency diversification strategy are reported as (1) a component of other income in the condensed consolidated statement of comprehensive income and (2) OCI in the condensed consolidated statement of financial condition and the condensed consolidated statement of comprehensive income. The full effect of the GLOBAL is captured in comprehensive income.

A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

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Consolidated: For the current quarter, our net revenues were \$527 million and income before income taxes was \$340 million, compared to net revenues of \$374 million and income before income taxes of \$213 million in the prior year quarter. The increase in income before income taxes in the current quarter was mainly driven by a 53% increase in net interest income and 43% increase in commissions, partially offset by a 20% increase in execution and clearing costs and a 13% increase in employee compensation and benefits. Our pre-tax profit margin was 65%, compared to 57% for the prior year quarter.

Electronic Brokerage: For the current quarter, income before income taxes in our electronic brokerage segment increased \$106 million, or 57%, compared to the prior year quarter, driven by higher net interest income, commissions, and other income, partially offset by higher execution and clearing, general and administrative, and employee compensation and benefits expenses. Net revenues increased 48%, mainly from a 56% increase in net interest income, driven by higher Federal Funds rates and higher average customer credit and margin loan balances; a 43% increase in commissions, primarily driven by higher options and futures contract and stock share volumes; and a 40% increase in other income led by increases in risk exposure fees and market data fees, compared to the prior year quarter. Pre-tax profit margin was 63% for the current quarter, compared to 59% for the prior year quarter. Customer accounts grew 27% and customer equity increased 33% from the prior year quarter. For the current quarter, total Daily Average Revenue Trades (“DARTs”) for cleared and execution only customers increased 43% to 939 thousand, compared to 657 thousand for the prior year quarter.

Market Making: For the current quarter, income before income taxes in our market making segment increased \$31 million, to a gain of \$9 million compared to the prior year quarter, during which we began to wind down operations in this segment. The current quarter’s results reflect higher trading gains and lower operating costs on the remaining operations. In the third quarter of 2017 we completed the transfer of our U.S. options market making business to Two Sigma Securities, LLC and by year-end we had exited the majority of our market making activities outside the U.S. In addition, as a result of discontinuing our options market making activities, we expect that approximately \$40 million in annual net expenses will be absorbed by the electronic brokerage segment. As of March 31, 2018, on a prospective basis, approximately 95% of the resources related to the \$40 million in annual net expenses have been transferred to the electronic brokerage segment.

Under the agreement with Two Sigma Securities, LLC, we have the opportunity for future income from an earn-out agreement, based on the performance of the options market making business under Two Sigma Securities, LLC’s control. Under the agreement, we would earn a share of any U.S. profits after variable costs and other agreed-upon costs for three years; and a separate share of any non-U.S. profits after variable costs for four years. The agreement provides Two Sigma Securities, LLC the opportunity to enter non-U.S. parts of this business and, while it does not preclude us from participating in those markets, the earn-out would be effective only in markets where we did not compete.





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## Trading Volumes and Brokerage Statistics

The following tables present historical trading volumes and brokerage statistics for our business. However, volumes are not the only drivers in our business.

## TRADE VOLUMES:

(in 000's, except %)

Period	Market Making		Brokerage Cleared		Brokerage Non Cleared		Total		Avg. Trades per U.S. Trading Day
	Trades	% Change	Trades	% Change	Trades	% Change	Trades	% Change	
2015	65,937		242,846		18,769		327,553		1,305
2016	64,038	(3%)	259,932	7%	16,515	(12%)	340,485	4%	1,354
2017	31,282	(51%)	265,501	2%	14,835	(10%)	311,618	(8%)	1,246
1Q2017	12,224		62,914		3,665		78,803		1,271
1Q2018	4,469	(63%)	89,621	42%	4,695	28%	98,785	25%	1,619
4Q2017	4,263		71,502		3,800		79,565		1,273
1Q2018	4,469	5%	89,621	25%	4,695	24%	98,785	24%	1,619

## CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

## TOTAL

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	634,388		140,668		172,742,520	
2016	572,834	(10%)	143,287	2%	155,439,227	(10%)
2017	395,885	(31%)	124,123	(13%)	220,247,921	42%

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1Q2017	121,155		30,366		53,300,920	
1Q2018	115,438	(5%)	43,449	43%	68,380,398	28%
4Q2017	89,381		31,445		58,373,129	
1Q2018	115,438	29%	43,449	38%	68,380,398	17%

MARKET MAKING

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	335,406		14,975		15,376,076	
2016	307,377	(8%)	14,205	(5%)	13,082,887	(15%)
2017	102,025	(67%)	5,696	(60%)	7,139,622	(45%)
1Q2017	52,291		2,511		1,954,775	
1Q2018	13,256	(75%)	935	(63%)	2,817,831	44%
4Q2017	11,228		1,002		1,750,178	
1Q2018	13,256	18%	935	(7%)	2,817,831	61%

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(1) Futures contract volume includes options on futures.

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## BROKERAGE TOTAL

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	298,982		125,693		157,366,444	
2016	265,457	(11%)	129,082	3%	142,356,340	(10%)
2017	293,860	11%	118,427	(8%)	213,108,299	50%
1Q2017	68,864		27,855		51,346,145	
1Q2018	102,182	48%	42,514	53%	65,562,567	28%
4Q2017	78,153		30,443		56,622,951	
1Q2018	102,182	31%	42,514	40%	65,562,567	16%

## BROKERAGE CLEARED

Period	Options (contracts)	% Change	Futures (1) (contracts)	% Change	Stocks (shares)	% Change
2015	244,356		124,206		153,443,988	
2016	227,413	(7%)	128,021	3%	138,523,932	(10%)
2017	253,304	11%	116,858	(9%)	209,435,662	51%
1Q2017	60,366		27,528		50,397,970	
1Q2018	87,705	45%	41,742	52%	64,494,943	28%
4Q2017	66,232		30,041		55,714,749	
1Q2018	87,705	32%	41,742	39%	64,494,943	16%

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(1) Futures contract volume includes options on futures.

## BROKERAGE STATISTICS:

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(in 000's, except % and where noted)

Year over Year	1Q2018	1Q2017	% Change
Total Accounts	517	406	27%
Customer Equity (in billions) (1)	\$ 129.2	\$ 96.8	33%
Cleared DARTs	876	609	44%
Total Customer DARTs	939	657	43%
Cleared Customers (in \$'s, except DART per account)			
Commission per DART	\$ 4.04	\$ 4.01	1%
DART per Avg. Account (Annualized)	439	385	14%
Net Revenue per Avg. Account (Annualized)	\$ 3,768	\$ 3,157	19%

Consecutive Quarters	1Q2018	4Q2017	% Change
Total Accounts	517	483	7%
Customer Equity (in billions) (1)	\$ 129.2	\$ 124.8	4%
Cleared DARTs	876	681	29%
Total Customer DARTs	939	730	29%
Cleared Customers (in \$'s, except DART per account)			
Commission per DART	\$ 4.04	\$ 3.92	3%
DART per Avg. Account (Annualized)	439	363	21%
Net Revenue per Avg. Account (Annualized)	\$ 3,768	\$ 3,318	14%

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(1) Excludes non customers.

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Business Environment

With market volatility, which had long been absent, returning in February and March, we maintained our position as one of the largest U.S. electronic brokers as measured by the number of customer revenue trades and increased our DARTs 43% from the prior year quarter. New customer account growth remained robust as total customer accounts increased 27% from the prior year quarter to 517 thousand. Institutional customers, such as hedge funds, mutual funds, introducing brokers, proprietary trading groups and financial advisors, comprised approximately 49% of total accounts and approximately 69% of total customer equity as of March 31, 2018. Our customer base is geographically diverse, with customers residing in over 200 countries and territories and over 50% of new customers come from outside the U.S. Average equity per account increased 5% from the prior year quarter to \$250 thousand, as we continued to attract larger customers that seek our superior technology and low costs as well as our securities finance services, including margin lending and short sale support.

Electronic brokerage net interest income grew 56%, compared to the prior year quarter. The Federal Reserve's five increases in the Federal Funds target rate since December 2016, together with higher average customer credit and margin loan balances, generated significantly more net interest income than in the prior year quarter. Our low margin lending rates are tied to benchmark rates, such as the Federal Funds rate in the U.S. In the current quarter, our customers paid 1.6% to 3.2% for their U.S. dollar margin loans with us. Average customer credit balances rose 11% due to an inflow of new accounts, and average customer margin loan balances increased 49% from the prior year quarter due to customers' appetite for increased leverage, along with expanded prime broker financing.

Market making segment results increased in the current quarter on higher trading gains and lower non-interest expenses on the remaining operations.

The following is a summary of the key profit drivers that affect our business and how they compared to the prior year quarter:

Global trading volumes. According to data received from exchanges worldwide, volumes in exchange listed equity based options increased by approximately 33% globally and in the U.S. for the current quarter, compared to the prior year quarter. During the current quarter we accounted for approximately 4.7% (6.5% in the prior year quarter) of the exchange listed equity based options volume traded worldwide (including options on ETFs and stock index products), and approximately 7.0% (9.3% in the prior year quarter) of exchange listed equity based options volume traded in the U.S. This decrease was primarily due to exiting our options market making activities. It is important to note that this metric is not directly correlated with our profits. See tables on pages 40-41 of this Quarterly Report on Form 10-Q for additional details regarding our trade volumes, contract and share volumes and brokerage statistics.

Volatility. Based on the Chicago Board Options Exchange Volatility Index ("VIX®"), the average volatility increased to 17.2 in the current quarter, up 47% from the average of 11.7 in the prior year quarter and peaking at 50.3 during February of 2018. Higher volatility improves our electronic brokerage performance because it generally results in higher trading volumes.

Interest Rates. Because we pay among the highest rates in the brokerage industry on qualified customer cash balances and charge among the lowest rates on margin borrowings, we attract customers who seek to maximize their yields and

minimize their costs. As our margin balances are tied to benchmark rates, rising U.S. interest rates have enhanced the interest we receive on our U.S. dollar customer margin balances. Rising rates also increase the interest we earn on our segregated cash, the majority of which is invested in U.S. government securities and related instruments. Higher rates also raise our interest expense, as we pass along more interest to our customers. We believe our yields attract customers to our platform.

Currency fluctuations. As a global electronic broker and market maker trading on exchanges around the world in multiple currencies, we are exposed to foreign currency risk. We actively manage this exposure by keeping our net worth in proportion to a defined basket of 14 currencies we call the “GLOBAL” in order to diversify our risk and to align our hedging strategy with the currencies that we use in our business. Because we report our financial results in U.S. dollars, the change in the value of the GLOBAL versus the U.S. dollar affects our earnings. During the current quarter the value of the GLOBAL, as measured in U.S. dollars, increased 0.73% compared to its value as of December 31, 2017, which had a positive impact on our comprehensive earnings for the current quarter.

A discussion of our approach for managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

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Certain Trends and Uncertainties

We believe that our current operations may be favorably or unfavorably impacted by the following trends that may affect our financial condition and results of operations:

- Our market making activities will continue to be impacted by the following trends until we complete its wind-down.
- Over the past several years, the effects of market structure changes, competition (in particular, from high frequency traders) and market conditions have, during certain periods, exerted downward pressure on bid/offer spreads realized by market makers.
- In recent years, in an effort to improve the quality of their executions as well as to increase efficiencies, market makers have increased the level of automation within their operations, which may allow them to compete more effectively with us.
- A driver of our market making profits is the relationship between actual and implied volatility in the equities markets. The cost of maintaining our conservative risk profile is based on implied volatility, while our profitability, in part, is based on actual volatility. Hence, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. Implied volatility tends to lag actual volatility.
- Retail broker dealer participation in the equity markets has fluctuated over the past few years due to investor sentiment, market conditions and a variety of other factors. Retail transaction volumes may not be sustainable and are not predictable.
- Scrutiny of equity and option market makers, hedge funds and soft dollar practices by regulatory and legislative authorities has increased. New legislation or modifications to existing regulations and rules could occur in the future.
- Additional consolidation among market centers may adversely affect the value of our SmartRouting<sup>SM</sup> software.
- Benchmark interest rates have fluctuated over the past years due to economic conditions. Changes in interest rates may not be predictable.

See “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10 K, filed with the SEC on March 1, 2018, and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.



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## Results of Operations

The tables in the period comparisons below provide summaries of our consolidated results of operations. The period to period comparisons below of financial results are not necessarily indicative of future results.

	Three Months Ended March 31,	
	2018	2017
	(in millions, except share and per share amounts)	
Revenues		
Commissions	\$ 220	\$ 154
Interest income	311	177
Trading gains	13	2
Other income	77	76
Total revenues	621	409
Interest expense	94	35
Total net revenues	527	374
Non-interest expenses		
Execution and clearing	73	61
Employee compensation and benefits	70	62
Occupancy, depreciation and amortization	12	13
Communications	6	8
General and administrative	23	16
Customer bad debt	3	1
Total non-interest expenses	187	161
Income before income taxes	340	213
Income tax expense	21	18
Net income	319	195
Less net income attributable to noncontrolling interests	273	171
Net income available for common stockholders	\$ 46	\$ 24
Earnings per share		
Basic	\$ 0.64	\$ 0.35
Diluted	\$ 0.63	\$ 0.34

Weighted average common shares outstanding

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Basic	71,475,950	67,985,107
Diluted	72,512,462	69,157,614
Comprehensive income		
Net income available for common stockholders	\$ 46	\$ 24
Other comprehensive income		
Cumulative translation adjustment, before income taxes	1	4
Income taxes related to items of other comprehensive income	-	-
Other comprehensive income, net of tax	1	4
Comprehensive income available for common stockholders	\$ 47	\$ 28
Comprehensive income attributable to noncontrolling interests		
Net income attributable to noncontrolling interests	\$ 273	\$ 171
Other comprehensive income - cumulative translation adjustment	7	19
Comprehensive income attributable to noncontrolling interests	\$ 280	\$ 190

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Three Months Ended March 31, 2018 (“current quarter”) compared to the Three Months Ended March 31, 2017 (“prior year quarter”)

Net Revenues

Total net revenues, for the current quarter, increased \$153 million, or 41%, compared to the prior year quarter, to \$527 million. The increase in net revenues was primarily due to higher net interest income, commissions and trading gains. Trading volume is an important driver of revenues and costs for our businesses. During the current quarter, our electronic brokerage options and futures contract and stock share volumes increased 48%, 53% and 28%, respectively, compared to the prior year quarter.

Commissions

Commissions, for the current quarter, increased \$66 million, or 43%, compared to the prior year quarter, to \$220 million, driven by higher customer trading volumes in futures, options and stocks, continued customer account growth and higher average commission per customer order. Cleared customer options and futures contract and stock share volumes increased 45%, 52% and 28%, respectively, compared to the prior year quarter. Total DARTs for cleared and execution-only customers, for the current quarter, increased 43% to 939 thousand, compared to 657 thousand for the prior year quarter. DARTs for cleared customers, i.e., customers for whom we execute trades, as well as clear and carry positions, for the current quarter, increased 44% to 876 thousand, compared to 609 thousand for the prior year quarter