



COUNTERPARTY CREDIT MANAGEMENT AND HEDGING POLICY

1. INTRODUCTION AND SCOPE

This document explains the methodologies used to manage market risk and to decide upon the size of IG Markets (IG) exposure limits for its hedging counterparties.

The policy has been developed with consideration of the ASIC Regulatory Guide 227.

Credit risk is the risk that a counterparty to IG fails to perform its obligations which results in financial loss for IG. IG's management of credit risk is intended to protect the company and clients from any sudden changes in the liquidity, credit quality or solvency of our banks or brokers.

IG primarily takes on market risk to facilitate instant execution of client trades, and therefore market risk limits are generally very conservative. IG Group's revenue model is flow-based, whereby revenue streams are derived from commission, finance and spread capture on client trading transactions, and not from taking on market risk.

2. MARKET RISK MITIGATION, MONITORING AND REPORTING

IG does not take proprietary positions based on an expectation of market movements. However not all client transactions are hedged, and as a result IG may have a net position in any of the markets on which it offers products. IG therefore has exposure to market risk to the extent that it has a residual un-hedged position. The levels of market risk are detailed in note 36 to the Group's 2014 annual report, available at www.iggroup.com.

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

IG risk management systems allow it to continually monitor its exposure against these limits in real time and on a group-wide basis. If IG exposure exceeds the limits as a result of clients closing existing or opening new positions, IG policy requires that sufficient hedging is carried out to bring the exposure back within the defined limit.

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

3. CREDIT RISK MITIGATION AND REPORTING

The Executive Risk Committee reviews the credit quality of its major counterparties on an on-going basis, a minimum of twice per year and more frequently if there is a significant change in market conditions or relevant news.

It is IG's policy to reduce the risk of counterparty failure by setting each one a risk assessed exposure limit and through diversification. This policy also addresses the risk of business interruption if any counterparty decides to withdraw from a particular business stream.

The exposure to each counterparty, their credit rating and CDS spreads are monitored on a daily basis and reported to members of the Executive Risk Committee.

4. CRITERIA FOR SELECTING A HEDGING COUNTERPARTY

Banks and brokers used for hedging are selected on the basis of a risk assessment and the following criteria:

- The capital position of the bank and the amount of client money placed as a proportion of this, and the bank's total deposit base
- The financial statements of the bank and its subsidiaries
- Whether the bank is considered systemic
- The level of government or parental ownership
- The credit rating and CDS of the bank
- Where available the level of risk undertaken by the bank in its investment and loan activities, and
- IG's proposed use for the bank hedging

The maximum exposure to any hedging entity or group is the AUD equivalent of Euro 150 million.

The most significant counterparties are required to have an investment grade rating from S&P (or be a subsidiary of an entity holding such a rating). Where possible IG will also seek to hold its account at the hedging counterparty on a segregated basis.

	S&P LONG TERM RATING A- OR HIGHER	S&P LONG TERM RATING LESS THAN A-
Exposure	99.56%	0.44%
Banks/Brokers	Barclays	Peregrine Direct Ltd
	Central Counterparties	First Rand
	Citigroup	
	Commerzbank AG London	
	Deutsche Bank AG	
	HSBC Bank plc	
	Macquarie Bank Ltd	
	Morgan Stanley	
	UBS AG	