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. Counterparty 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 counterparty 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.

2. MARKET RISK MITIGATION, MONITORING AND REPORTING

IG is exposed to market risk which results from facilitating instant execution of client trades. The business manages this market risk by internalising client flow (allowing clients’ trades to offset each other) and hedging when residual market exposures reach defined limits. IG does not take proprietary positions based on an expectation of market movements. However not all client transactions are hedged due to the nature of this hedging model, and as a result IG may have a residual un-hedged exposure, within the defined exposure limits, on any of the products it offers at any time.

IG Group (‘the Group’) has a market risk policy which sets out how the business manages its market risk exposures. The market risk policy incorporates a methodology for setting market risk limits, consistent with the Group’s risk appetite, for each financial market in which the Group’s clients can trade, as well as certain groups of markets or assets which the business considers to be correlated. These limits are determined with reference to the expected liquidity and volatility of the underlying financial product or asset class and represent the maximum (long or short) net exposure the Group can hold without having to hedge.

The Group’s real-time market position-monitoring system allows it to constantly manage its market exposures against its market risk limits. If exposures exceed pre-determined limits, hedging is undertaken to bring the exposure back within the limits. The Group monitors its market risk exposures through regular scenario based stress tests and other risk models to analyse the impact of potential market events, and takes appropriate action to reduce its risk exposures and those of its clients if exposures are beyond risk appetite.

3. CREDIT RISK MITIGATION AND REPORTING

IG has significant financial exposure to a number of financial institutions, owing to the placement of financial assets at banks and the hedging of market risk in the wholesale markets, which requires the Group to place margin with its hedging brokers. Financial institution credit risk is managed through the application of the Group’s Financial Institution Counterparty Credit Risk policy.

Financial institutional counterparties are subject to a credit review when a new relationship is entered into, and then re-reviewed semi-annually (or more frequently as required, for example upon changes to the financial institution’s corporate structure). Proposed maximum exposure limits for these financial institutions, reflecting their credit rating and systemic position, are reviewed and approved by the Executive Risk Committee. The Group actively manages the credit exposure to each of its broking counterparties, settling or recalling balances at each broker on a daily basis in line with the collateral requirements. As part of its management of concentration risk, the Group is also committed to maintaining multiple brokers for each asset class.

4. CRITERIA FOR SELECTING A HEDGING COUNTERPARTY

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

- The nature of business conducted by and geographical exposures of the counterparty.
- The credit rating of the individual counterparty (separate to the credit rating of a group) and that of the group to which it belongs.
- The ownership structure of the counterparty.
- The capital position, size of banking deposits, financial statements and recent financial performance of the counterparty.
- The systemic status of the counterparty banking entity/group, either:
  - globally systemic, through inclusion in the Financial Stability Board’s list of,
  - globally Systemically Important Banks (G-SIBs), or
  - locally systemically important, as per IG’s own internal view of the bank.
- The creditworthiness of the home state which may give support to the counterparty in times of stress.
- The extent to which deposits at the counterparty would be eligible under any government deposit protection scheme.

Addition of new hedging counterparties or changes to existing counterparty limits require approval by the Group’s Executive Risk Committee. The maximum cash exposure IG permits to any hedging entity or group is the larger of €150m or 25% of the Group’s Regulatory capital.

MAJOR HEDGING COUNTERPARTIES

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<tr>
<th>Banks/Brokers</th>
<th>Barclays Capital Securities Ltd</th>
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<td>HSBC Bank plc</td>
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<td>Peregrine Direct Ltd</td>
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For more details on the Group’s Counterparty credit and market risk practices please refer to the annual group report (www.iggroup.com).