

1. INTRODUCTION AND SCOPE

This document explains the methodologies used to manage market risk and counterparty credit risk by IG Australia Pty Ltd (IGAU) and its ultimate parent company, IG Group Holdings PLC ('IG Group'). Throughout this policy, IG Group and its subsidiaries are referred to as 'the Group'. This policy has been developed having regard to the Australian Securities and Investments Commission Regulatory Guide 227 *Over-the-counter contracts for difference: Improving disclosure for retail investors*.

2. MARKET RISK

HEDGING WITH IG MARKETS LIMITED

IGAU fully mitigates its market risk by hedging every contract for difference (CFD) transaction on a one-for-one basis with IG Markets Ltd ('IGM'), an associated company and subsidiary of IG Group.

IGM accept some market risk to facilitate instant execution of client trades. IGM manages this market risk by internalising client flow through netting the exposure created through clients' trades so as to offset, and external hedging when the residual exposures reach defined limits. The Group's real-time market position-monitoring system allows IGM to constantly manage its market exposures against its market risk limits. If exposures exceed predetermined limits, IGM executes hedges to bring the exposure back within the limits.

IG GROUP MARKET RISK POLICY

IG 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 Group considers to be correlated. The Group determines these limits 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 will hold without hedging.

The Group sets its market risk limits with the objective of achieving the optimal efficiency between allowing client trades to be internalised, the cost of external hedging, and the variability of daily revenue. The Group works to manage market

risk so that its trading revenue predominantly reflects client transaction fees net of hedging costs, and is not driven by market risk gains or losses. Residual market risk can crystallise if a market 'gaps' or fluctuates sharply, which occurs when a price changes suddenly in a single large movement, sometimes at the opening of a trading day, rather than in small incremental steps. This can mean the Group is unable to execute or adjust hedging in a timely manner, resulting in potential market risk exposure. This may create a gain or a loss. The Group monitors its market risk exposures through regular scenario-based stress tests to analyse the impact of potential stress and market gap events, and takes appropriate action to reduce its risk exposures and those of its clients.

3. CREDIT RISK MITIGATION AND REPORTING

Counterparty credit risk is the risk that a counterparty of IGAU fails to perform its obligations which results in financial loss for IGAU. IGAU'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 IGAU's counterparties. IGAU has significant financial exposure to a number of financial institutions, owing to the placement of financial assets at banks.

IGAU is responsible, under the Australian regulatory regime, for the stewardship of client money and assets. These responsibilities include the appointment and periodic review of institutions where client money is deposited. Our general policy is that all financial institution counterparties holding client money accounts must have a minimum long-term credit rating of BBB-, with limits set depending on strength of credit rating. In addition, the majority of our deposits are made on an overnight or breakable-term basis, which enables us to react immediately to any deterioration in credit quality. We only hold deposits of an unbreakable nature or requiring notice with a subset of counterparties that have been approved by the Executive Risk Committee.

In addition, IGAU has financial exposure to IGM as its hedging counterparty. The Group's 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 the Group enters into a new relationship, and this is updated semi-annually (or more frequently as required, for example on 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.