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Risk Management Policy

Last review: March 2021

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1. BASIC TERMS, DEFINITIONS AND ABBREVIATIONS

Inherent risk – risk existing before controls or mitigating measures are taken into account.

Internal Control System (ICS) – the entire range of procedures, methods and controls established by the Board of Directors and the management of the Company to ensure the proper implementation of financial and business operations. Internal control procedures are an integral part of the Company's business processes. They are carried out either throughout the business process, or immediately before or after the assignment.

The internal control system helps:

- ✓ ensure the implementation of business tasks with effective and efficient company management;
- ✓ ensure compliance with legal and regulatory requirements;
- ✓ ensure the safety of assets;
- ✓ prevent errors and violations, identify them and reduce their number;
- ✓ to ensure the relevance, accuracy, completeness and correctness of accounting records;
- ✓ ensure the preparation of timely and accurate financial statements.

Internal control (IC) is a process aimed at ensuring reasonable confidence in achieving the following goals: efficient and effective use of the Company's resources, safeguarding assets, compliance with legal requirements and the provision of reliable reporting.

Internal audit (IA) - assessment of the reliability and efficiency of ICS in a company, risk management system, efficiency and cost effectiveness of business process management, as well as providing consulting support to the Company's management at the stage of developing IC systems and procedures.

Residual risk – risk remaining after taking into account controls and mitigating measures.

Risk Management System (RMS) is a set of processes, methods, information systems aimed at achieving the goals and objectives of risk management.

Risk is a combination of the probability of an event and its consequences with effect of uncertainty on objectives (ISO / IEC Guide 73: 2009). For the purposes of this document, a risk (a risk event) is a probable event that may affect the achievement of the Company's strategic and operational goals in the future perspective. The impact of risk is divided into negative and positive.

Risk appetite is the amount of risk that the Company is willing to accept to achieve the goal of increasing its value.

Source (factor) of risk is the circumstance, the state of the environment, which carries the possibility of the occurrence of a risk event.

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The consequences of risk - events that are most likely to occur after the risk has been realized. The consequences of a risk are expressed in influencing the efficiency and time of implementing business tasks, financial results, reputation, reliability, service delivery, human resources, and other factors which impact achievement of strategic and operational objectives of the Company.

The probability of risk is a measure of the possibility of a risk event.

Material risk is a measure of the consequences of a risk event.

Materiality is a concept or convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy. The following is considered:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.

Risk management is a process carried out by managers and specialists at all levels of management of the Company and its structural subdivisions, including:

- ✓ identification and risk assessment,
- ✓ their ranking
- ✓ impact on risks within risk appetite

to provide a reasonable guarantee of achieving the Company's strategic and operational goals (Committee of Sponsoring Organizations' Enterprise Risk Management - COSO ERM).

The owner of the risk is the head of the division (business process) whose strategic or operational goals are directly affected by this risk. The risk owner is responsible for identifying, evaluating and monitoring of particular risk and is appointed by the Chief Executive Officer of the Company.

Risks and controls matrix is a summary of the Company's key risks and conrols.

Key risk indicators (KRI) – quantitative and qualitive indicators of risk sources (factors).

Risk Manager (RM) - person or department responsible for coordinating the risk management processes of the Company and its branches, collecting and updating risk information, advising risk owners on risk management methodologies, and providing information to interested parties.

Cross-functional cooperation within RM - the process of managing interfunctional (interprocess) risks (risks affecting the goals of several functions (business processes), which is based on collective decisions taken jointly, based on the information available to various functions (business processes).

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Control procedures - a set of actions to eliminate (reduce) the likelihood of risk realization or to prevent its consequences.

2. GENERAL PROVISIONS

KAURIFINANCE OU is a virtual currency exchange service provider who, in its own economic or professional activity, accepts an order for exchanging virtual currency through an electronic platform and exchanges it for money. KAURIFINANCE OU is not an exchange or a regulated market. KAURIFINANCE OU does not offer cash-related services.

Risk Management Policy of KAURIFINANCE OU " (hereinafter - the "Policy") defines basic principles of organization, implementation, and control of risk management processes in KAURIFINANCE OU (hereinafter - the "Company").

This Policy covers the following areas:

a) Risk management overview
   - ✓ Goals and objectives of the RMS;
   - ✓ Principles and requirements of the RMS;
   - ✓ Risk appetite;
   - ✓ Key risks.

b) Basic risk management procedures:
   - ✓ Identification and risk assessment;
   - ✓ Development and implementation of risk management measures;
   - ✓ Risk monitoring.

c) Risk management system architecture:
   - ✓ Risk management levels;
   - ✓ Organizational structure of risk management units;
   - ✓ The roles and responsibilities of the participants of the risk management system;
   - ✓ Information support of the risk management system.

d) Risk reporting:
   - ✓ Regulatory documents and standards;
   - ✓ Communications, protocols and reports;
   - ✓ Evaluation of risk management effectiveness.

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The document is intended for managers and specialists of all levels of the Company's management, its structural divisions, branches, as well as other participants in risk management processes and stakeholders.

3. RISK MANAGEMENT OVERVIEW

The risk management overview includes goals, objectives, principles, priority areas in risk management, as well as an approach to choosing risk appetite.

3.1. Goals and objectives of risk management

The goals and objectives of risk management are presented in Table 3.1.

Table 3 .1. Goals and tasks of the RMS

Goals	Tasks
Ensuring a reasonable assurance in achieving strategic goals	✓ Identification and evaluation of the materiality of events affecting the achievement of strategic goals; ✓ Providing preventive measures to minimize the likelihood and the negative impact of risks; ✓ Strategic risk planning; ✓ Timely informing Management of the Company and stakeholders on the existence of threats and opportunities; ✓ Monitoring risks and changes in laws and regulations.
Preserving assets and maintaining business performance	✓ Identification, assessment and risk management; ✓ Providing information on risks when making management decisions; ✓ Analysis of control matrices; ✓ Creation and management of a system of key risk indicators (KRI); ✓ Identification and prevention of fraud.
Ensuring business continuity	✓ Preparation of risk response programs; ✓ Regulation of consequences of risk events; ✓ Coordination, support and evaluation of the effectiveness of timely response to emergency situations.

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3.2. Principles and requirements of the RMS

The risk management system is based on the following principles:

- ✓ **System approach**. All types of risks are managed in all key areas of operational activity of the Company.
- ✓ **Responsibility for risk management**. Each employee of the Company provides risk management function within his competence, knowledge and available information as one of his tasks.
- ✓ **Cross-functional interaction**. The process of managing interfunctional risks (risks affecting the goals of several functions (business processes)) is based on collective decisions taken jointly, based on the information available to various departments (participants and managers of business processes).
- ✓ **Single information channel**. Informational support of the risk management system makes it possible to promptly and fully inform about the risks of decision makers.
- ✓ **Separation of decision-making levels.** Risk minimization decisions are made at various levels of management, depending on the significance of the risks. The boundaries of determination the level of decision-making are established on the basis of the Company's risk appetite.
- ✓ **Goals orientation**. Risk management is carried out on the basis of the goals set by the Company's Strategy, as well as the goals of specific processes and functions.
- ✓ **Decision-making process**. Risk information for decision making is carried out from the lower levels of management to higher levels. Risk minimization decisions, as well as control over risk management, extend from higher levels of management to lower levels.
- ✓ **Cost-efficiency**. The risk management system ensures the economic efficiency of risk management measures. Risk reduction is carried out based on economic feasibility and costs versus benefits analysis.
- ✓ **Monitoring the effectiveness of risk management**. The effectiveness of risk management is carried out by monitoring key risk indicators (KRI) developed for each priority area of risk management.

3.3. Risk appetite

Risk appetite is the amount of risk that, in the opinion of the Company`s management, is considered acceptable for the Company. This means that the risk appetite corresponds to the resources of the Company, which CEO and/or Board of Directors of the Company are prepared to accept in case of a risk event. Based on the risk appetite, CEO and/or the Board of Director decide whether to accept this risk or work to reduce it.

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In general, the risk appetite is tied to the ability of the Company to fulfill its obligations. This is determined by reference to regulatory requirements and/or the financial performance of the Company, for example. Also, along with financial/operating indicators, risk appetite can be tied to indicators of the quality of the provision of services.

In accordance with the principle of separation of decision-making levels, each management operational level has its own risk appetite.

Risk appetite is reviewed and approved by the Board of Directors on an annual basis, or more frequently in the event of significant changes in the operating environment of the Company in order to ensure that it is aligned with the Company's strategic objectives.

In exceptional cases, if the risk appetite level is exceeded, the risk may be taken subject to approval of the Board of Directors if the measures aimed at reducing it are economically ineffective or carry even greater risks. Alternatively, the failure to reach the maximum risk appetite level does not mean that there is no need to reduce the risk if it is economically effective or can lead to a positive effect.

The Company sets various triggers and thresholds and defines the escalation requirements for further actions. The Company assigns risk metrics that are sensitive to material risks to which the Company is exposed, and which are able to function as key indicators of the Company's financial stability.

The Company's risk management prepares on at least quarterly basis reports to the management and Board of Directors regarding the Company's risk profile, risk management strategy and monitoring.

3.4. Key risk areas

The key metrics for classifying the risks of the Company are its functional areas of activity. To simplify the identification of risks, the Company's Risk Classifier is used, approved by the Company's CEO.

All risks are classified as follows:

(1) Financial risks (See Annexes):
- Market risks (interest rate, foreign exchange, equity, commodity and other cross-asset risks)
- Credit risks (settlement exposure, risk of default, counterparty and concentration risks)
- Liquidity risks.

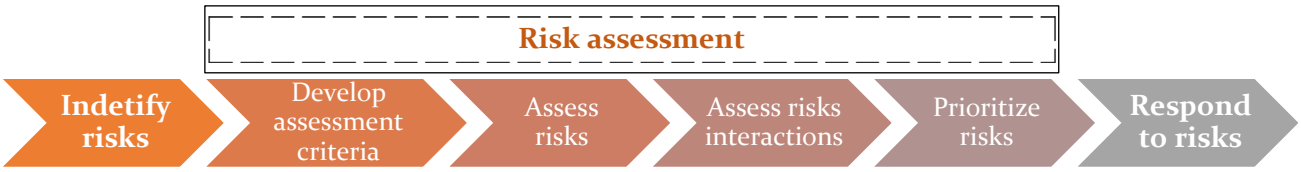
(2) Non-financial risks:
- Operational risks (technology and innovations, algorithms, competition risks)
- Information security
- Reputational risks

- Compliance and regulatory environment risks (legal, tax and anti-money laundering risks)
- Fraud risks
- Human capital risks
- Financial reporting risks
- Other.

4. RISK MANAGEMENT PROCESS

4.1. Risk assessment process

The risk management process includes the following stages:



4.1.1 Risk identification

An effective risk identification, which forms the basis for the limitation and monitoring of the Company's risks, should take into account both internal and external factors.

Risk identification is carried out at all levels of the Company's management in accordance with the ICP-1. Risks and Controls Matrix and risk appetite approved by the Board of Directors.

When identifying a risk, the following information regarding each risk is documented:

- ✓ Name of a process and sub-process;
- ✓ Name of a risk and risk description;
- ✓ Risk level;
- ✓ The owner of the risk and the person supplying the risk information.

4.1.2. Risk assessment

Risk assessment is defined as the combined effort of identifying and analyzing potential (future) events that may negatively impact individuals, assets, and/or the environment (i.e. risk analysis); and making judgments "on the tolerability of the risk on the basis of a risk analysis" while considering influencing factors (i.e. risk evaluation):

- Using an objective methodology to evaluate the likelihood and potential impact of each risk to understand its inherent risk exposure. Gaining a preliminary understanding of inherent risk to develop an early view on its strategy for risk mitigation.
- Consider key risk drivers that can be organized into the following four broad categories:

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- **Legal impact:** Regulatory or legal action brought against the Company or its employees that could result in fines, penalties, imprisonment, product seizures, or debarment.
- **Financial impact:** Negative impacts with regard to the Company's bottom line, share price, potential future earnings, or loss of investor confidence.
- **Business impact:** Adverse events, such as embargos or plant shutdowns, that could significantly disrupt the Company's ability to operate.
- **Reputational impact:** Damage to the Company's reputation or brand—for example, bad press or social-media discussion, loss of customer trust, or decreased employee morale.

Assess risk interactions. Risks do not exist in isolation. The Company recognizes the importance of managing risk interactions. Even seemingly insignificant risks on their own have the potential, as they interact with other events and conditions, to cause great damage or create significant opportunity. Therefore, the Company applies an integrated or holistic view of risks using techniques such as risk interaction matrices, etc.

Prioritize risks. Risk prioritization is the process of determining risk management priorities by comparing the level of risk against predetermined target risk levels and tolerance thresholds. Risk is viewed not just in terms of financial impact and probability, but also subjective criteria such as health and safety impact, reputational impact, vulnerability, and speed of onset.

Risk assessment is a combination of risk ***probability of occurrence*** and its ***materiality*** or loss severity.

Risk assessment is performed with a forecast horizon of 1 year.

Risk assessment includes two elements qualitative and quantitative analysis.

- Qualitative assessment consists of assessing each risk and opportunity according to descriptive scales as described below as not all risks can be meaningfully quantifiable.
- Quantitative analysis requires numerical values for both impact and likelihood using data from a variety of sources. Quantitative analysis is based using the following techniques: scenario analysis to generating forward looking point estimates (deterministic models) and then to generating forward looking distributions (probabilistic models) depending on the fact and circumstances relevant for a particular risk.

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Risk probability is an expert metric and is determined on a 5-point scale.

Table 4 .1. Scale for determining likelihood of a risk

Scoring	Value in%	Probability descriptor	Interpretation
1 (Very low)	<10%	Rare	The event is likely to occur no more than 1 time in 15 years.
2 (Low)	10-35%	Unlikely	The event is likely to occur 1 time in 5-15 years.
3 (Medium)	35-65%	Possible	The event is likely to occur once every 2-5 years.
4 (High)	65-90%	Likely	The event is likely to happen in the next year or two.
5 (Very high)	> 90%	Almost certain	The event is likely to happen in the coming year.

Risk materiality has two scales: financial and reputational.

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Table 4.2. Materiality criteria

Scoring	Descriptor	Interpretation of possible effects
1	Incidental	• Risk should virtually have no effect on reputation • No or very low financial impact • An incident is not reported to regulators • Isolated staff dissatisfaction • No impact on employees or losses to third party, such as customers or vendors
2	Minor	• Risk will lead to some reputational damage • Low commercial/financial impact • A reportable incident to regulator, no follow up is required • No or minor impact on employees or losses/damage to third party, such as customers or vendors • General staff morale problems and increase in turnover
3	Moderate	• Short-term effect on reputation • Moderate commercial/financial impact • Reportable incident to regulator with immediate correction to be implemented • Moderate impact on employees or losses/damage to third party, such as customers or vendors • Widespread staff morale problems and high turnover
4	Major	• Significant but short-term effect on the reputation; • Significant loss of market share; high commercial/financial losses • Reportable incident to regulator requiring major project for corrective actions • Large impact on employees or losses/damage to third party, such as customers or vendors • Widespread staff morale problems, some senior managers leave, and high turnover of experienced staff
5	Extreme	• Significant and long-term effect on the reputation; • Significant loss of market share driving for major business strategy changes; significant commercial/financial losses • Significant prosecutions and fines, litigations, including class actions • Significant impact on employees or losses/damage to third party, such as customers or vendors • Widespread staff morale problems, multiple senior managers leave, and high turnover of experienced staff

Quantification of the risk materiality can be based using various methods and/or data.

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One of the possible techniques is scenario analysis where applicable.

For each risk where applicable, at least three scenarios are built (pessimistic, optimistic and basic) that are incompatible, that is, they cannot occur simultaneously. Each of the scenarios is weighted by the conditional probability as a percentage (the probability of the occurrence of such particular scenario if the risk is realized). By the condition of incompatibility, the sum of all conditional probabilities for a given risk should be 100%. For each of the scenarios, the materiality in USD and the impact on the reputation are determined on a 5-point scale.

While assessing risk materiality the following two metrics are usually considered:

- ✓ Average damage, calculated as the mathematical expectation of the distribution of damage (in financial and reputational indicators) for available scenarios;
- ✓ Total exposure - damage (in financial and reputational indicators) that will not be exceeded with a 95% probability.

Thus, a risk has one probability estimate and 3 materiality scores: average damage and total exposure on two scales: financial and reputational.

Key Company`s risks are defined in the ICP-1. Risks and Controls Matrix.

4.2. Development and implementation of risk management measures

Risk management measures can be divided into 3 categories:

- ✓ Risk minimization - procedures that affect the probability or materiality of a risk.
- ✓ Transfer of risk - transferring all or part of the risk on the basis of a contract or other legal documents from one party to another.
- ✓ Risk avoidance - termination (or replacement) of processes that carry risk.

Risk management measures should be supplemented with the following information:

- ✓ Responsible person and\or department for the procedure implementation;
- ✓ Deadline for the procedure;
- ✓ The frequency of the procedure;
- ✓ Additional budget for the implementation of the procedure;
- ✓ The status of the procedure implementation;
- ✓ The actual time of the procedure;
- ✓ Link to documents confirming the fact of the implementation of risk management measures;
- ✓ Residual risk after a set of measures.

Determining residual risk:

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- While it is impossible to eliminate all of the Company's risk exposure, the risk framework and methodology help the Company prioritize which risks it wants to more actively manage. Effective risk mitigation activities may reduce the likelihood of the risk event occurring, as well as the potential severity of impact to the organization.
- When the Company evaluates inherent risk in light of its existing control environment and activities, the degree of risk that results is known as the "residual risk." If existing risk mitigation strategies are insufficient at reducing residual risk to an acceptable level, this is an indication that additional measures are in order.

4.3. Risk monitoring

The Company implements risk monitoring for controlling the risks. This is achieved by updating on a regular basis (at least quarterly) information about risks, risk management measures, the status of implementation of measures, as well as by tracking the values of key risk indicators developed earlier at the stage of identification and risk assessment.

Risk monitoring and control keeps track of the identified risks, residual risks, and new risks. It also monitors the execution of planned strategies for the identified risks and evaluates their effectiveness.

During execution of routine business processes and/or projects, a person authorized to provide risk supervision (Risk manager) conducts meetings on a regular basis to update the status of risks in the Risks and controls matrix and add new risks if any. The Company sets general rules that such meetings are not mandatory for minor level projects and may only be needed quarterly for moderate level projects.

Periodic project risk reviews repeat the process of identification, analysis, and response planning.

If an unanticipated risk emerges, or a risk's impact is greater than expected, the planned response may not be adequate. The project manager and the Company`s RM should perform additional responses to control the risk.

Monitoring also determines whether:

- ✓ The RM performs periodic risk review and updating;
- ✓ Risk management policies and procedures are followed;
- ✓ The cost vs benefit of risk monitoring procedures is adequate;
- ✓ Design and implementation of risk monitoring systems.

And it may involve recommending:

- ✓ Alternative risk responses;
- ✓ Implementing a contingency plan;
- ✓ Taking corrective actions;
- ✓ Changing the project objectives.

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The Company provides risk monitoring and control functions in such a manner as prescribed in the Risks and controls matrix.

The overall risk management process must be reviewed regularly (at least annually) and as a minimum such a review must specifically address the following:

- the embedding of risk measurement in daily risk management;
- the validating of significant changes in the risk measurement process;
- verifying the accuracy and completeness of exposure data;
- verifying the consistency, timeliness and reliability of data sources used for internal models, including the independence of such data sources; and
- verifying whether the risk assessment assumptions are accurate and adequate.

5. RISK MANAGEMENT SYSTEM ARCHITECTURE

5.1 Risk management levels

The risk management in the Company is multi-level.

Multilevel risk management is divided into two categories:

a) **Levels of corporate governance** correspond to the corporate structure of the Company. There are two levels of the Company's management: shareholders meetings and management of the Company.
b) **Levels of organizational management** correspond to the goals of operational management and comprise 3 levels:

- ✓ Level of the Board of Directors of the Company (decisions on risks are taken at the level of the Board of Directors);
- ✓ Level of the Management Board and/or CEO (decisions on risks are taken at the level of the Management Board or CEO);
- ✓ Linear management level (decisions on risks are taken by the heads of functional units (participants and managers of business processes).

For each of the levels of the risk management system, there is a decision threshold, which is a risk threshold, above which the risk decision is passed to a higher level according to the following principles:

- ✓ For the level of linear management (business processes), decision making is transferred to the level of CEO (Management Board);
- ✓ For the level of the CEO (Management Board), the decision is transferred to the level of the Board of Directors.

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5.2. Roles and responsibilities of risk management system participants

Roles and responsibilities are distributed according to the following principles:

- Responsibility for effective risk management, as well as for overall approval of the budget for risk management activities in the Company is borne by the Board of Directors**.** Responsibility for the effective management of risk at lower management levels lies with the heads of departments.
- Responsibility for solving cross-functional (interposed or simultaneously performed by several functional subdivisions) risk management tasks, as well as budgeting for risk management measures, lies with the CEO of the Company.
- Responsibility for the timely identification, risk assessment, development and implementation of measures, risk monitoring lies with the heads of departments (managers and participants of business processes) at all levels and functional divisions. The owners of the risks are the heads of those departments (business processes), whose goals are directly affected by the risk.
- Responsibility for methodological support and coordination (timely collection of information) of all risk management processes, as well as timely and full provision of information on the risks for all stakeholders (including the Management Board, Board of Directors) are coordinated by risk management functions (RM manager).

The risk management efficiency is supervised by the Board of Directors.

Table 5 .2. Roles and responsibilities of the participants in the RMS

Participant	Role	Functions and responsibilities
Board of Directors	Controller	• Supervision of the effectiveness of risk management • Approval of major risk management decisions
Director/CEO	Guarantor	• Organization of effective risk management • Approval of RM budgets. • Approval of the Risks and controls matrix.
Various departments	Executors, risk owners	• Identification and assessment of risks. • Development and execution of activities. • Timely transfer of information about risks and activities to the coordinators of the RMS.
RMS Managers	Methodology Coordinator	• Coordination of risk management processes. • Identification and assessment of risk. • Training and consulting on risk management methodologies. • Support and development of the methodological and regulatory framework of the RMS. • Information support of joint bodies that make joint decisions on risks. • Providing all stakeholders with risk information.

The RM function responsibilities include the following:

- ✓ Coordination of risk management processes: identify, analyze, and plan response actions for newly arising risks, and add them to the Risks and controls matrix.
- ✓ Review the execution of risk response actions and evaluate their effectiveness.
- ✓ Re-assess existing risks, verify that the assumptions are still valid, and modify the previous assessments as necessary.
- ✓ Assign additional risk response actions to the Risk Owner.
- ✓ Retire risks whose ability to impact the project has elapsed, or whose residual impact on the project is deemed to have reached an acceptable level.
- ✓ Close control of day-to-day business (limits, P&L, etc.), taking into account the market risk measure.
- ✓ Review and approval of:
  - risk-aggregation models,
  - valuation models for the daily P&L calculation,
  - models for generating input factors (e.g. yield curve models).
- ✓ Regular review of the position limits in accordance with the ICP-2. KAURIFINANCE OU Position Limits Procedure.

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- ✓ Communication and notification of the senior management of the Company in case of position limit overruns along with any sanctions, including respective documentation of each such case identified.
- ✓ Continuous verification and adaptation of the documentation of the risk monitoring system (trading and control systems).
- ✓ Training and consulting on risk management methodologies.
- ✓ Providing all stakeholders with risk information and regular reporting to senior management of the Company and Board of Directors.
- ✓ Discussion of any risks for which response actions are not being carried out effectively or whose risk impact is increasing. If these cannot be resolved within the RM, he\she should escalate these to the CEO and Board of Directors with recommendations for action.

In case the Company uses model-based approaches for risk assessment and capital adequacy calculation, the RM function and senior management of the Company should apply the following provisions:

- ✓ The risk management department must inform the responsible member of senior management directly and daily in an appropriate form on the results of the risk aggregation model, who must then critically assess these;
- ✓ The responsible member of senior management who assesses the reports from the independent risk management department must have the powers to enforce a reduction of the Company's risk exposure;
- ✓ The risk control department must periodically inform the responsible member of senior management of the results of the backtesting and stress testing who must then critically assess these.

Tracking of key risk indicators of all departments (business processes) of the Company is carried out on a regular basis, depending on the significance of risks and the level of risk decision making.

5.3. Information support of the risk management system

Risk information is used in the decision-making process. This principle means that information about risks, their magnitude, current and possible risk management measures is available and can be provided on demand (if there is justification for using such information) to any manager or specialist within his or her competence.

Risk information should be contained in a database view implemented on any information platform (including MS Office tools). The risk database is a full range of related information that can be presented in the form of a risk register and passports for each of the risks. The responsibility for maintaining risk information database lies with the RM.

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The decision on the extent and depth of automation of the risk management process is at the discretion of the Director/CEO of the Company.

6. RISK REPORTING

6.1. Regulatory documents and standards

The regulatory framework of the RMS is built based on the provisions of this Policy, is consistent and does not contradict it.

The regulatory framework of the RMS is formed for each of the 2 levels of management:

- Company's executive office
- Departments.

Table 6 .1. Mandatory list of the regulatory framework of the RMS

Document	Purpose of the document
Risk management policy	Basic principles of organization, implementation, and control of risk management processes.
Risk classifier/Risks and controls matrix	Description of risk areas, which further can be specified by detailing information about objects subject to these risks, subjects of influence of risks, terms, regulations, projects, counterparties and other relevant information that gives a full understanding of the risk area.
Regulations on risk appetite and decision thresholds	Formalization of risk appetite, thresholds for the separation of decision-making levels about risks.
Risk Management Reporting Forms	Forms of providing information on risks from departments, as well as forms of risk reporting for stakeholders.

6.2. Protocols and reports

Reporting by the RMS provides solutions to risk management tasks and is intended for a full and transparent exchange of risk information in a succinct format for decision makers.

The RM function reports to the Board of Directors on a quarterly basis.

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Table. 6.2 Reporting documents of the RMS

Reporting document	Responsible	Purpose of the document
Risks and controls matrix	RM function	List of risks with the description and risk level. Also reflects probability and materiality of risks.
Presentations to the Board of Directors, Company's Committees	RM function	Presentation materials with summary information on risks and the status of the risk management process, current and upcoming tasks in the field of risk management and other relevant information.

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6.3. Evaluation of risk management performance and key risk indicators

Evaluation of the effectiveness of risk management in the Company is carried out based on:

- ✓ Analysis of changes in risk assessment;
- ✓ Analysis of the integrity and completeness of risk management actions;
- ✓ Dynamics of change of key risk indicators (KRI).

KRI is an indicator characterizing the risk factor (source), in general, not being its assessment.

KRIs are developed by risk owners and approved by the Company's CEO/Management Board.

In order to consolidate responsibility for achieving the target values of the KRI, they can be set as Key performance indicators for managers and departments.

Control over the correctness of the calculation of the KRI is carried out by the internal audit and risk management units.

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ANNEXES

1. Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments (including traded debts and bonds), favorable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to counterparties, including outstanding receivables, etc. A change in the credit quality of the counterparty has an impact on the valuation of assets eligible for fair value measurement with the respective effect on the Company's financial statements.

As part of its annual risk assessment procedure, the Company identifies and addresses the following dimensions of credit risk:

- Default risk – the risk that a counterparty is unable to settle its payment obligations or experiences material credit quality deterioration due to likelihood or increased likelihood of default;
- Concentration risk – the risk of adverse development in a specific single underlying commodity, counterparty, or country, that would deteriorate the Company's whole risk profile and specific credit exposures.
- Settlement risk - the risk that arises from any existing, contingent or potential future positive exposure where a transaction results in the timing difference between cash inflows and outflows related to the transaction.

The details of the procedure of credit risk position limits establishment and monitoring are described in the Company's Position Limits Procedure.

Credit risk management system

The Company's credit risk is measured by internal and regulatory capital demand.

The positions subject to credit risk include open positions in traded securities and other financial assets.

The Company mitigates its credit risk using the following principles:

- ✓ Diversification of portfolio of derivatives traded;
- ✓ Introduction and monitoring of position limits for each type of derivatives/commodities traded;
- ✓ Open positions in derivatives are marked to market on daily basis;
- ✓ All position limits are designed by the Company's Risk Management function in collaboration with Finance department, and approved by the Board of Directors;
- ✓ The Company's Risk Management function is a separate body not involved in trading activities;
- ✓ The Company's trading activity is cleared through reliable central counterparties;

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- ✓ The Company's trading systems are designed to fully capture in real time the entire population of trades within each type of trading activity/each broker, and aggregate all net exposures across all commodities traded to facilitate measurement of the Company's credit risks;
- ✓ Continuous risk monitoring and re-assessment at individual counterparty and at portfolio levels;
- ✓ Review of credit risk policies and practices is included in regular Internal Audit test plans;
- ✓ The Company ensures it has sufficient liquidity to meet its obligations and conduct its business activities at all times, in accordance with the measures stipulated by the GBP-9. Paciore Treasury policy.

Risk tolerance

The Company establishes internal limits and credit exposures under these limits for each counterparty. Credit limits set forth maximum credit exposures the Company is willing to assume over specified periods.

In case the Company identifies a counterparty where there is a concern regarding its credit quality that is either deteriorating or there is a risk that it will deteriorate leading to an increased credit risk exposure, the respective counterparty is included into a "watch list". Regularly updated watch lists and review meetings are used for the identification of counterparties where adverse changes in creditworthiness could occur.

The Company seeks to manage the timing of settlement instructions to its agents and the reconciliation of incoming payments in order to reduce the window of exposure to settlement risk.

Governing body

The Company's Risk Management and Compliance department and the Board of Directors are ultimately responsible for measurement and response to credit risks.

Data integrity and validation

Credit risk measurement system is based on accurate data and appropriately documented, reviewed and tested.

Reporting

Monthly reports on the Company's risk position in relation to the established limits is issued to the Board of Directors. Particularly, analysis of the aggregate credit risk exposure, credit risk concentrations, changes in the risk profile, and exposure against risk limits is reported.

2. Market risk

Market risk includes the risk of a loss as a result of changes in value of a position due to changes in price-determining factors, including but not limited to currencies, share or commodity prices, exchange rates and interest rates and their corresponding volatilities, and other factors.

According to Companies Policies the trading book consists of positions in financial instruments and commodities held either for trading or to hedge other elements of the trading book. To be eligible for the trading book, positions must either be unencumbered by any restrictive covenants regarding their tradability or fully hedgeable at all times. Trading intent exists if the Company intends to hold the positions for a short term, or with a view of benefiting from short-term fluctuations in their market price or realizing arbitrage gains (examples include proprietary trading positions, positions arising from client servicing (e.g. matched principal broking) and market-maker positions). The positions are valued on daily basis and precisely, and the portfolio is actively managed.

2.1. Commodity and equity risks

Commodities are defined as physical goods which are, or can be, traded on a secondary market, such as agricultural products, minerals and precious metals.

The Company's market risk takes place primarily through taking positions in equity and commodity derivatives and arises from possibility of changes in commodities prices, equity prices, and other relevant parameters, such as market volatility, etc.

The market risk measurement and market risk limits policy are designed to ensure consistent identification, analysis and monitoring of market risks, effective decision-making process, and timely escalation of issues to the Company's Board of Directors. The details of the procedure of market risk position limits establishment and monitoring are described in the Company's Position Limits Procedure.

Commodity and equity risk management system

The Company manages its market risk on a portfolio level. Similarities in types of commodity or counterparty's country may lead to scaling negative consequences for a whole group of assets, and negatively affect counterparties' ability to settle obligations.

The Company mitigates its commodity and share price risk using the following principles:

- ✓ A clearly documented trading strategy approved by senior management is in place for the positions or portfolios. The strategy also includes information on the expected holding period for said positions.
- ✓ Position limits are set and monitored for appropriateness, inter alia, using live dashboards containing summary information on trading activities.
- ✓ Position prices are marked to market at least daily. When marking to model, the valuation parameters are assessed on a daily basis.

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- ✓ Positions are actively monitored using market information. For the valuation process, this includes assessing the quality and availability of market inputs, the volume of market turnover and the sizes of positions traded in the market.
- ✓ Monitoring the positions against the Company's trading strategy, including the monitoring of turnover and open positions.

Management provides instructions that represent clear directives and processes to determine which positions can be held in the trading book and which cannot. At a minimum, these directives and processes must provide answers to the following questions:

- ✓ Which activities does the Company define as trading and thereby the relevant positions in the trading book to determine capital adequacy requirements?
- ✓ To what extent can the positions be valued daily with reference to an active, liquid market?
- ✓ For positions valued using a model, to what extent can the Company:
  - identify the material risks of these positions?
  - hedge the material risks of these positions? And to what extent do the hedging instruments have an active liquid market?
  - reliably derive estimates for the most important assumptions and parameters used in the model?
- ✓ To what extent can the Company perform valuations of positions which can be validated externally in a consistent manner?
- ✓ To what extent could legal provisions or other operating requirements prevent the Company from liquidating positions immediately?
- ✓ To what extent can the Company actively manage the risk of the positions?

The Company conducts assessment of market movements and macroeconomic scenarios, including the analysis of historical data, for each underlying commodity and builds its product-specific strategies by setting its risk appetite for each portfolio of similar underlying commodities.

The Company applies stress-testing for market risk assessment to capture the impact of potential unexpected negative consequences of market changes. Stress-testing is performed on a monthly basis as part of position limits definition as set in the Position Limits Procedure. The report on results of stress-testing is submitted to the Board of Directors for review before the position limits are approved.

Risk tolerance

The Company sets specific credit and market risk limits where in the course of its budgeting and strategy setting procedure it identifies that undue concentrations of certain types of financial instruments may lead to trading losses under certain circumstances.

To manage its price risk arising from investments in commodity derivatives, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

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The Company's Risk Management and Compliance department and the Board of Directors are ultimately responsible for measurement and response to market risks.

Data integrity and validation

Market risk measurement system is based on accurate data and appropriately documented, reviewed and tested.

Reporting

Monthly report on the Company's risk position in relation to the established limits is issued to the Board of Directors.

Disclosure

Disclosure requirements are based on FINMA circular 2016/1 "Disclosure – banks".

As a part of annual reporting, market risk is disclosed in the annual financial statements.

2.2. Interest rate risk

Interest rate risk is the risk to the Company's capital and earnings arising from shifts in interest rates. Changes in interest rates affect the economic value of the Company's assets, liabilities and off-balance-sheet items (net present value perspective). They can also impact income from operations (earnings perspective).

Interest rate risks can take three forms:

- A gap risk arises from a mismatch in time or in the re-indexing of interest rates for assets, liabilities and off-balance-sheet exposures.
- Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are valued using different interest rates.
- Option risk arises from options or from embedded (implicit) options that allow the Company or its counterparty to alter the level and timing of their cash flows.

Changes in interest rates may indirectly cause a change in the debtor's credit rating (solvency effect), without resulting in an immediate jump to default.

Governing body

The Board of Directors is responsible for the oversight and approval of an appropriate framework relating to interest rate risks and for defining the risk appetite for interest rate risks.

Risk tolerance

The risk tolerance relating to interest rate risks shall be stated at least in regard to the net present value perspective. The Company defines appropriate limits that are based on its risk appetite in consideration of the short-term and long-term impacts of interest rate shifts and suitable shock and stress scenarios if applicable.

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Internal interest rate risk measurement system

The Company identifies, measures, monitors and controls its interest rate risks in a timely and comprehensive manner. The credit rating effects of tradable financial instruments must also be taken into account according to their relevance.

Where applicable and taking into account the Company specifics and types of operations performed the measurement of interest rate risk is based on a broad and appropriate range of interest rate shock and stress scenarios.

The Company's interest rate risk measurement system considers the following scenarios:

- ✓ internally selected interest rate shock scenarios that adequately address the Company's risk profile;
- ✓ historical and hypothetical interest rate stress scenarios, which tend to be more severe than shock scenarios listed above;
- ✓ the standardized interest rate shock scenarios; and
- ✓ any other interest rate shock scenarios.

The following elements typically are considered when developing interest rate shock and stress scenarios for the interest rate risk:

- ✓ severe and plausible interest rate shock and stress scenarios;
- ✓ the existing level of interest rates and the interest rate cycle as well as interest rate risk concentrations, interest rate volatility, solvency effects, dependencies with other types of risk, balance sheet structure effects;
- ✓ hypothetical assumptions: for changes in portfolio composition due to internal and external factors; for new instruments where only limited historical data is available; for new market information and new, emerging risks.

The Company considers applicable interest rate risk as part of qualitative and quantitative stress tests as part of its overall stress test framework concept. In such stress tests, the Company assumes a severe worsening of its capital and earnings in order to reveal vulnerabilities in view of its hedging strategies.

As the Company falls into Category 5 small banks/financial institutions, it may limit itself to qualitative stress tests.

Modeling assumptions

The key behavioral modeling assumptions used to measure interest rate risks shall be conceptually sound and reasonable, and, in regard to optionality, consistent with relevant historical experience. Sensitivity analyses for behavioral assumptions must be carried out periodically. The other modeling assumptions and their impact on interest rate risk shall be conceptually sound, reasonable and shall be regularly reviewed and be consistent with the Company's business strategies.

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As the Company falls into the Category 5 small banks/financial institutions, it shall be exempt from reviewing their modeling assumptions and the impact at least once a year if it can comprehensibly justify and document that its business model and instrument structure, market conditions and other factors relevant to the modeling assumptions have not changed significantly. However, modeling assumptions and their impact must be reviewed at least every three years.

Data integrity and validation

Interest rate risk measurement systems are based on accurate data and are appropriately documented, reviewed and tested. Models for interest rate risks shall also be appropriately documented and controlled and, if suitable data is available, also tested. Both are part of a risk framework and are subject to an independent and adequately documented validation.

If appropriate, a variety of methodologies shall be used under both the net present value and the earnings perspective, ranging from static simulations to more dynamic modeling techniques for the earnings-based approach.

Reporting

The Board of Directors shall be informed regularly (at least every six months) on the scope and the development of the interest rate risk as well as its measurement, management, monitoring and control.

These reports shall include in particular the interest rate risk exposure (also under stress scenarios), the utilization of limits and the most important modeling assumptions.

2.3. Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the Company.

The Company is exposed to a number of different foreign exchange risks:

- ✓ Transaction risks arise in the context of every (existing or planned) receivable or payable denominated in foreign currency and the resulting payment flow. Transaction risks are actively managed at entity level based on rules and principles outlined below.
- ✓ Translation risks arise within the context of investments denominated in foreign currency and the projected annual results from these investments. The Treasury does not generally hedge translation risks unless the Board of Directors indicates it should be hedged.
- ✓ Economic risks are risks that affect competitiveness and arise within the context of the effects of exchange rate fluctuations in comparison to competitors from other currency regions. The Company does not actively manage economic risks but considers these in its strategic business decisions.

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Foreign exchange risk management system

The objective of foreign exchange risk management is to identify and quantify the risk of financial losses due to movements in exchange rates and to develop and implement suitable risk strategies to manage exposures to an acceptable level for the Company.

On a monthly basis, the Treasury calculates the net foreign currency (FX) exposure and reports to the CFO. A net FX exposure is a financial asset or liability in some other than the Company's functional currency. The Treasury Manager determines the net exposure by offsetting positive and negative financial balance sheet items in the same currencies, and by running a sensitivity analysis on each net currency balance.

On a quarterly basis, the Treasury reports to the CEO on the following items:

- Foreign exchange risk per currency
- Gross and net risk position per currency
- Potential risk quantified using scenario analysis
- Mark-to-market values of hedging instruments.

The Treasury decides on a case by case basis and in conjunction with the CFO whether hedge accounting to be applied.

Governing body

The Company's Risk Management and Compliance department and the Board of Directors are ultimately responsible for measurement and response to foreign exchange risks.

Data integrity and validation

Foreign exchange risk measurement system is based on accurate data and is appropriately documented, reviewed and tested.

Reporting

Monthly report on the Company's risk position in relation to the established limits is issued to the Board of Directors.

3. Liquidity risk

Liquidity risk is a risk that the Company is unable to fund assets and meet obligations as they fall due under both normal and stressed market conditions.

Although there are no regulatory requirements regarding liquidity compliance and monitoring for securities dealers, the Company still has procedures in place to mitigate related risks.

The objective of the Company's liquidity risk management framework is to ensure that the Company can fulfill its payment obligations at all times and can manage liquidity and fund risks within its risk appetite.

Treasury function is primarily responsible for liquidity management.

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The liquidity and funding strategy as a part of the Company's trading strategy is approved by the Board of Directors.

The liquidity profile is reported to Board of Directors on a regular basis, at least on a quarterly basis.