

ULTIMO SECURITIES

Risk Management Policy



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A. Introduction

The Risk Management Policy (the “**Policy**”) aims to elucidate the approach of **Ultimo Securities International Ltd** (the “**Company**”) towards the possible risk confronted by the Company and the principals guiding its approach.

The Policy establishes the risk strategy adopted by the Company with relation to the acceptance and management of risk. Its purpose is to set out the context for risk management within the Company and set the foundation for its risk culture, policies, and procedures.

B. Scope

The Policy describes the various risks the Company may be confronted with, and also describes the procedures that the Company has in place in order to monitor and mitigate the various types of risks it may be exposed to, including the fact that the Company is ready to take any preventative measures to mitigate and/or avoid the possible risk(s) as far as possible.

This Policy applies to all the Company’s employees, board of directors of the Company (“**Board**”), student placements and visitors (Personnel).

This policy encompasses but is not limited to:

- » Identifying, assessing and treating risks
- » Ongoing risk monitoring and review
- » Communication and consultation
- » Record-keeping
- » Specific risk areas.

Any breaches of the procedures of this Policy, whether deliberate or not, are considered a serious matter which will be escalated to the Board through the Audit and Compliance and Risk Committee, and/or any other senior level manager, as the case may be from time to time.

The Company has clearly defined the responsibility and authority of the Company’s Board to oversee and manage the risk management program, while conferring responsibility and authority on the Committee to develop and maintain the risk management program in light of the day to day needs of the Company. Regular communication and review of risk management practice provides the Company with important checks and balances to ensure the efficacy of the risk management program.

Every business, despite the nature of operations it performs, the location and the period for which it has been operating, faces various types of risks. Risk is the potential that the Company’s financial performance and financial position suffer loss and deviate from the expected values. The crystallization of risk may have as a result the Company to suffer significant damage (financial, reputational and/or operational) which may lead to the disruption of its operations.

The Company has allocated financial and other resources to set up procedures that will enable the management of the risks so that to avoid losses, achieve stability and also to increase its profitability. In the following sections, there is an analysis of some of the major risks the Company is exposed to, the impact of those risks on the Company and also a brief description of the policies and procedures the Company has in place in order to identify, manage and mitigate the different types of risks.

C. Risk Management Framework

The Board is responsible for the total process of risk management and should ensure that the Company develops and executes a comprehensive and robust system of risk management. The Board and its directors should maintain a sound internal control system.

The Risk Management function is performed mainly by the relevant committee, Senior Management and Board. Overall Risk Management responsibility for the Company lies on the Board of Directors.

In order to fulfil risk management function, the Committee has designed and implemented this Policy that considers all the risks the Company is exposed to, whereby the Policy will be approved finally by the Board.

This framework works in four levels:

- a) Identifying the risk(s);
- b) Measuring their impact on the Company;
- c) Avoiding/mitigating the impact of the risk(s); and
- d) Reporting the risks to the Senior Management and/or Board.

Risks should be continuously monitored and reviewed. In addition to that, outcomes and results should be properly reported, and new objectives should be set. Reporting lines should be established within the Company and followed for purposes of transparency and clear communication.

Characteristics of a productive Risk Management process:

- a) A culture of risks adjusted in the Company. It embraces a series of values, attitudes and ways of acting towards risks, including taking decisions on change management and strategic business planning.
- b) Complete approach to all risks, there are risks that directly affect the Company and risks that indirectly affect the Company. It is very important to report all kinds of risks and to assume and understand the relations between them. The overall calculation should be simplified without affecting the difference of nature, degree of evolution and real possibilities of management and control of each type of risk, adjusting the organization, processes, reports and tools to the features of each one.
- c) An organizational and control model which is assigned to all risk types.
- d) Common management instruments among the different departments, without negatively affecting the regulations and requirements of supervisors and the degree of development of each department.

It is very important that all risk assessment results should be communicated to all relevant departments with the appropriate consultation given.

Some responsibilities that arise under the risk framework are delegated to the Company's employees that have appropriate skills and capabilities in terms of education, knowledge, and experience to perform them. In addition, the Company arranges that employees are continuously trained and updated with latest developments, including the attendance of seminars relevant to each department, which adds the value to the Company.

D. Risk Management Structure

The Board of Directors, Audit Committee, Compliance and Risk Committee and Money Laundering Reporting Officer shall control and supervise the overall risk management system. The Company has designed its risk management support and considers the arrangements appropriate and proportionate to the scale, nature and complexity of the business and does not consider them to give rise to any conflict of interest. In addition to the dedicated in-house resource, the Company may also engage external consultants and when necessary specialised risk advisors. The Committee reports directly to the Board.

In order to identify and assess material business risks, the Company defines risks and prepares risk profiles in light of its business plans and strategies. This involves applying the process of risk identification, risk assessment and analysis, risk treatment and monitoring and reporting.

E. Counterparty Credit Risk

Counterparty Credit Risk is defined as the risk of loss that the Company will incur if counterparty fails to perform its contractual obligations.

Counterparty Credit Risk arises primarily on the Company's own and client funds deposited with the institutions, entities, PSPs, amounts due from related parties and other receivables.

The Company only deals with the reputable institutions and takes all measures in selecting the Banks and PSPs.

The Company does not bear any credit risk in relation to the client money because it is not required to compensate client from losses suffered due to the default of the bank at which the client money is deposited.

Counterparty Credit Risk is managed and monitored by the Board and the Audit Committee, on an ongoing basis. The Company addresses Counterparty credit risk in a number of ways, as for example:

- a) The Company aims to maintain a diversified client portfolio, so as to avoid high concentration and exposure to a few numbers of clients.
- b) The Company own funds as well as the client funds are deposited solely at highly rated banking institutions in different jurisdictions.
- c) The Company's clients begin to trade once money has been deposited into the Clients' account.
- d) The Company has the right to close out any or all existing open positions if the equity of client's trading account reaches or remain below 30% of used margin.
- e) Leverage is being monitored by the dealing team and specifically before the release of major economic news.
- f) The Company uses prime broker and establishes agreement with counterparties that are considered highly rated.
- g) The Company reviews the counterparties on an ongoing basis; at least once a year and more frequently if there is a significant change in market conditions or unfavorable news on the counterparty.
- h) If the counterparty's liquidity and/or solvency deteriorate, the company may reduce or cease activities with the counterparty. This means the company no further open positions and withdraw of available funds.
- i) Independent monitoring of credit risk by the Committees;
- j) Ensure that top risks and issues are being highlighted to the management and Board;
- k) Establish key control processes and best practices, including the limit settings, early warning signals and classification of clients.

F. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, fraud, unauthorized activities, error, omission, or from external factors.

Operational risk is divided into numerous risk categories, relating among others to the following:

- (a) Internal and External fraud
- (b) Marketing & Advertising
- (c) Regulatory reporting
- (d) Internal procedures and controls
- (e) Business disruption and system failures
- (f) Employment practices and workplace safety
- (g) Conflicts of interest

- (h) Client and business practice
- (i) Compliance and Legal risk.

The Company has established various techniques for the mitigation of operations risk and include the following;

- (a) The Board reviews significant strategic decisions made by management and monitors their activities. This is achieved through the “four-eye” principle, and implementing the board oversight over the strategic decisions made by the Senior Management and/or Heads of the Departments;
- (b) The Compliance officer must ensure the accuracy of any statement made during the marketing and advertising processes and ensures that the information addressed to the client is fair, clear, and not misleading.
- (c) The Compliance officer must ensure the proper information/reports are sent in due time to FSC and the Board of Directors.
- (d) Management formally communicates duties and responsibilities to employees through regular meetings, seminars, and trainings.
- (e) Several policies and procedures have been established and followed in an attempt to identify and minimize any fraudulent activities.
- (f) An online web-based screening program called World-Check is used in an attempt to improve the know-your-client’s procedures and to minimize fraud activities.
- (g) The Company uses third parties’ systems for the implementation of customer identification and due diligence procedures.
- (h) Client reporting is available to minimize the risk of mismarking the clients’ positions.
- (i) The Company has a comprehensive and detailed business continuity plan in place, with disaster recovery procedures. This Business Continuity and Disaster Recovery Plan has been designed to mitigate the risks that may affect the Company, including the internal systems and/or databases;
- (j) The Company maintains a Management of Interest Policy to ensure that any conflicts are identified and resolved in a consistent and appropriate manner.
- (k) Financial accounts are audited by one of the leading audit firms, eliminating the risk of Company statement manipulation or tax evasion.
- (l) The majority of actions occurring in the Company’s systems are automated and therefore it is less likely that a human error may occur;
- (m) Regular review and updating of the Company’s policies.

G. Market Risk

The Board is responsible for recognising and managing market related risks. By its nature, as an investment company, the Company will always carry investment risk because it must invest capital in securities which are not risk free. Simultaneously, the Company seeks to reduce this investment risk by a policy of diversification of investments across industries and companies operating in various sectors in the market.

The Company defines Market Risk as the risk of adverse movements in the level of interest rates, in the rate of exchange between currencies and the current prices of financial instruments. Accordingly, these movements may affect the Company's profitability. From a regulatory perspective, market risk stems from all foreign exchange risk positions in the whole balance sheet.

The Company is exposed to the following sub-categories of market risk:

- a) **Interest Rate Risk:** Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fluctuations of market interest affect the prices of Financial Instruments. The Company’s management monitors the interest rate fluctuations and acts accordingly. However, it does not consider interest rate risk as significant since it does not hold

any material interest bearing assets and liabilities.

- b) **Foreign Exchange Risk:** Foreign currency risk is the risk that the value of financial instruments will fluctuate due to unfavorable changes in foreign exchange rates. As the Company's principal activity is trading in foreign currencies, it is exposed to foreign currency risk as a result of the existence of open currency positions in the currencies in which it performs transactions with its clients. The Company may maintain position limits for its open positions for each currency, in order to mitigate these risks. The open positions up to a limit are monitored on a continuous basis by the dealing team. The management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.
- c) **Price risk:** Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk). The Company is primarily exposed to price risk with regards to open CFD positions on foreign exchange, equities (including indices) and commodities. The overall exposure is monitored on a real time basis by the Company's Committees.

For the mitigation and management of market risk, the following procedures are established by the Company:

- a) The Company' Committee monitoring of the Company's risk exposure. Any deviation is reported to the Audit Committee and Compliance and Risk Committee and appropriate action is taken.
- b) The Company maintains trading accounts with other regulated companies for engaging in proprietary positions in financial instruments for its own account as a hedging measure and in order to minimize market risk, if and when this is needed.
- c) Straight through processing has been implemented which acts as a hedging measure. There is no risk on client's trades since all trades are fully offset by the liquidity provider
- d) Trading with diversified client portfolio achieves a natural diversification of its risk benefiting from a significant degree of natural hedging between the clients.
- e) The hedging of the Company's proprietary account portfolio in performed in liaison with the Head of Dealing.

H. Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting its actual and/or potential payment obligations as and when they fall due.

Liquidity risk also arises from the inability to find buyers on the terms desired. Infrequently traded Financial Instruments bear higher liquidity risk. The imbalance between the number of buyers and sellers or because the Financial Instruments assets are not traded very often cause this liquidity risk. The liquidity risk is usually reflected in a wide bid-ask spread or large price movements.

To mitigate liquidity risk, the following have been established:

- (a) The Company prepares monthly budgets to ensure that it meets its obligations on time;
- (b) The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of its financial obligations, contractual and contingent financial obligations;
- (c) The finance department monitors rolling forecasts of the Company's liquidity requirements based on expected cash flows in order to ensure that it has sufficient cash to meet its operational needs, under normal and abnormal (stressed) market conditions.

The Company does not consider liquidity risk to be significant as it maintains bank balances which are adequate to cover its immediate current liquidity needs or potential broker margin requirements.

I. Regulatory Risk

Regulatory risk is the risk that the Company may fail to report on time certain information/reports to any local or regulatory body, including but not limited to FSC, and not complying with relevant laws and directives as issued by the regulator from time to time. Regulatory risk may trigger the effects of reputation and strategic risk.

The Company established the following procedures for the mitigation of regulatory risk:

- (a) The Company has documented procedures and policies in place, based on the requirements of relevant Laws and Regulations issued by FSC.
- (b) The Directors, Company Secretary, Compliance officer, Money Laundering Reporting Officer and Deputy Money Laundering Reporting Officer are responsible to time prepare and send the report to FSC or any other local authority.
- (c) The Compliance officer acts as a second eye to ensure that all the Company's reports are sent on time to the FSC.
- (d) Compliance with the procedures and policies of the Company as a whole are further assessed and reviewed by the Company's auditors and suggestions for improvements are implemented by the management.

J. Legal & Compliance Risk

The Company is exposed to compliance risk that may arise because of breaches or non-compliance with legislation, regulations, agreements, ethical standards, and/or practices or the imposition of possible penalties from FSC.

The probability of such risks should be low due to the internal procedures and policies implemented by the company and the regular reviews by the Auditors.

The Company has established the following procedures for the mitigation of compliance risk:

- a) The Company may outsource legal experts that are responsible for the preparation of Company's agreements and documentation.
- b) The Company's Compliance officer ensures compliance with the applicable laws and regulations through its monitoring controls and policies.
- c) Money Laundering Reporting Officer has been appointed by the Company with the responsibility to address all issues regarding anti-money laundering while communicating with the FIU, FSC and relevant law enforcement agencies.
- d) Establishment of clear coordination of duties and the management consists of individuals of suitable professional experience, knowledge, and integrity, who have accepted responsibility for achieving the Company's strategic goals.
- e) The Board meets at least annually to discuss issues and suggestions to enhance compliance and implementation within the company.

K. Reputational Risk

The Company is exposed to Reputational Risk which can be defined as the possibility that negative publicity concerning the Company's practices or relations result in a loss in its quality of service, its integrity, or its financial solidity, causing substantive losses (i.e. deposits, customers) or valuation losses (i.e. prices of its tradable Financial Instruments) that can potentially undermine its existence. Reputation risk is the current or potential risk to the earnings and capital arising from the adverse perception of the image of the Company on the part of the customers, counterparties, shareholders, investors, or regulators.

In particular, reputation risk can materialize in the case of non-compliance with regulations, a breach of ethical values, poor performance, the loss of one or more of the Company's key directors, the loss of large customers, poor customer service, fraud/theft, customer complaints/claims, legal action, regulatory fines, or the perception by the customer of an unfavorable discrepancy between the commercial offering and the reality of staff's practices.

To manage its Reputational Risk, the Company acknowledges that it is responsible for market changes (including regulatory changes) and ensures that policies and procedures are adhered to. To this end, the Company controls all marketing communication that goes out to the public and stays up to date with new regulatory requirements and obligations in an effort to maintain a strong reputation. In addition, it obtains legal opinions on new jurisdictions in which it wants to operate to ensure that it does not violate any laws.

Furthermore, employees of the Company are bound by confidentiality policies and there are several controls to minimize the risk of internal fraudulent activity not being spotted /prevented.

The Company's management ensures responsiveness to changes of a market or regulatory nature that may impact its reputation in the marketplace.

The Company has transparent policies and procedures in place, including dealing with client complaints, in order to provide the best possible outcome and service in any given case. The possibility of having to deal with client complaints is low as the Company provides high quality service to clients.

L. Approval, Reporting and record- keeping

Approval

This Policy will be approved by the Board and forms part of the repository of business documentation. The implementation of the Policy and day to day monitoring of compliance with its procedures lies with the Committee, under supervision of the Board.

Reporting and record keeping

Risks identified in the Company's Risk Register and the Compliance Register are reported to the Board **monthly** by the CEO/Manager in the scheduled Board meetings. Related discussion and outcomes are recorded in Board and relevant minutes. Risk management discussion and outcomes from staff meetings are recorded in meeting minutes.

Risk register

The Organisation's Risk Register details major risks, their rating, controls and treatments, as well as responsibilities and timeframes.

- » All risks listed in the Risk Register are allocated a unique risk identification number.
- » De-activated risk identification numbers are maintained on the Risk Register for reference as required.

Compliance register

The Compliance Register details compliance obligations in relation to: insurance, incorporation, taxation and performance agreements.

M. On-going review

This Policy will be reviewed at least on an annual basis, adhering to internal guidelines for continued pertinence of the business documentation, to ensure that the procedures reflect the latest regulatory requirements and any changed business processes and circumstances.

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