

**UEXO GLOBAL MARKETS LLC**

Business Activity:

**Securities & Financial Products Promotion  
Introduction to Financial Services**

**Risk Management Policy**

Log of preparation, version of Policy & approval date.

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## **1. INTRODUCTION**

We at **UEXO GLOBAL MARKETS L.L.C** with commercial license Number **1569040** issued by Dubai Economy & Tourism are confirming that we are seeking approval from the SCA to approve our Category 5 SCA application with reference number LIC-0011290 as arranging and advising with activities Promotion & Introduction that we are involved in with the SCA.

### **Risk Management**

The risk management approach forms part of UEXO internal control and corporate governance structure like AML, Compliance, Internal Audit, Sales policy, HR department & operational department...etc.

Risk management is a critical component of Corporate Governance, which will assist the UEXO in identifying, facilitating, participating in and reacting to these changes.

### **Good governance requires:**

Corporate governance started with main 4 components related as 4Ps assigned to People, Purpose, Process & performance, as per below will explain each part.

- A Management Committee that is responsible for risk management. The Management Committee must identify key risk areas and key performance indicators and monitor these factors.
- An annual risk assessment that measures the results against recognized benchmark criteria.
- Risk management that integrates with day-to-day operations.
- When all corporations have an Internal Audit Function, and where no function exists, disclosure should be made as to how the Management Committee gains assurance.

The above requirements together with the fact that the UEXO's Global risk environment is continuously changing, suggest that a formal mechanism is created wherein the organization's risks are assessed on a continuous basis and the strategy for managing the identified risks adapted and managed accordingly.

UEXO will be embracing the concept of good corporate governance through their risk assessment process. The results of the risk assessment will foster an improved risk management philosophy and approach.

This manual sets out the results of UEXO risk profile, risk management needs and Risk-based Internal Audit Function.

The risk management approach explains UEXO underlying approach to risk assessment and management, documents the roles and responsibilities of UEXO and its senior management team and other key parties started with board management, pass to executive management to seniors then to juniors . It also outlines key aspects of the risk management process and identifies the main reporting procedures.

The company must identify and assess risks and set policies. Then it must act, and then monitor the risks. Policies must be implemented to manage these risks and finally introduce and test contingency plans. This is a continuous process. Risk management should be done thoroughly. This applies specifically to the task of assessing risks. A company which merely identifies risks is not sufficient. Properly used, risk management helps a company to evaluate its strengths and weakness and grow stronger.

## 2. Risk Assessment

The four steps in assessing risk: Risk awareness:

Risk management starts with awareness. Management -represented by experience of Board management and duly on the job process tasks -needs to recognize that Risks exist in business and that these risks can and should be managed. In turn management needs to embed and engage risk within the culture of the company. When that has been taken there are three further stages in risk management which are highlighted below.

### - **Assess the Risks**

The first stage is to assess the risks. Each type of risk has its own assessment and techniques. UEXO uses a standard methodology for carrying out the assessment of each kind of risk. This is done to ensure that data can be compared over time, and it helps management become familiar in evaluating risks submitted to them. Thorough assessment includes measurement. This allows the company to analyze trends and make decisions based on facts.

The second stage is to set priorities. The company has to determine which risks have the greatest priorities. The company should identify which carry the greatest risks, that can be done via risk matrix with ranking per each risk factor.

### - **Treat & mitigate the Risks.**

The third stage is to prevent the risks from occurring. This can be done in several strategies:

- Avoid: choose not to accept the risk, e.g. a business might decide not to acquire another firm because the risks are too great or business must not accept new clients from high risk countries as per world watch list.
- Minimize, reduce or control the risk through means such as improved monitoring, changing the process as by doing process reengineering for the daily process to avoid risk.
- Spread: sharing risk by diversifying, outsourcing, joint venture, hedging or insurance.

### - **Monitor the Risks:**

The final stage is to monitor the risks (this includes regularly measuring the risks to ensure that it remains within stated tolerances) and auditing (to ensure that the process is being followed). The Internal Auditor should report the findings to the CEO or Risk Management Committee who in turn should discuss the findings.

This review will help consider how the company's risk exposure could be reduced. As part of the review process, management needs to agree on what corrective action needs to be taken. The corrective action should be included in the minutes of the meeting, so that in the next review meeting it should be checked that the corrective actions have been carried out. The outcome of that must be summarized, shared with staff as a learning curve to be enhanced for the work culture environment then to be archived and used to study other cases.

### **3. Responsibility for Risk Management:**

Once the company has identified its risks then it should take action to manage these risks as per the risk matrix. If it does not act on these risks' factors, then the company and its directors may be legally liable because they knew the risks and failed to take action to prevent a disaster.

UEXO has identified a Chief Risk Officer -that can be as 3<sup>rd</sup> party agency or inhouse employee-, and the company has set up a Risk Committee which comprises of a group of senior managers (Head of Departments) who receive the internal audit reports and are involved in building an appreciation of risk within the company.

#### **Risk Committee**

Some of the Risk Committee's tasks are to:

- Ensure that the staff adhere to the company's risk policies
- Make sure that audits are carried out
- Review the findings of the audits and implement controls
- Develop risk enhancement and new matrix as per the finding of audit report.
- Develop risk awareness among UEXO staff
- Control risks within their own departments.
- Make recommendations to the board for risk-related changes.
- Seek the support of the Chief Risk Officer (CRO) in facing the challenges presented by the business risk.

#### **Management Actions**

Management -as board and Executive-actions, where the risk is significant, should be agreed and documented. Management needs to allocate full assurance responsibilities and deadlines for all the strategic risks identified.

It is recommended that data on the emergence or demise of risks, risk monitoring indicators and status of action plans should be collated and reported as trends to the Audit Committee periodically. A risk register should be made to include controls, residual risk assessment, agreed management actions, time frames, and responsibilities. This document should be updated and monitored on a regular basis, and will facilitate management in its assessment of the risk management process and its assurance needs.

#### **3.1.Risk Based Reviews and Policies**

The results that come out of the risk assessment process indicate significant opportunities for improvement of existing operations to better manage the identified risks by management at the Asset Management Company. Focus and attention should be given to the high-risk areas identified during the risk assessment process, the above process can be done by new process reengineering for all departments and company positions to make sure that new finding of risk management were considered for the new risk matrix and risk mitigation plan.

##### **- Operations Review**

The review pertains to the different relevant business processes of each business unit within UEXO. This will ascertain whether the processes are operating as intended and aligned with the best business practices.

- **Compliance Review**

The review will consider conformity and adherence to UEXO policies, plans, procedures, laws, regulations, contracts, or other requirements.

- **Assurance Review**

This review pertains to services involving the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The nature and scope of the engagement are determined by the internal auditor.

- **Support Audits**

The review pertains to the different support processes for each business unit within UEXO to continuously assess the effectiveness of controls under the Operations.

- **Cyclical Reviews**

Cyclical audits maybe undertaken to focus efforts on certain medium to low-risk Areas. These will be undertaken to, for example, to achieve general or specific improvements in the control environment which is prevalent in the business UEXO operates within. These cyclical audits are generally conducted on an annual basis with the aim of monitoring and maintaining (through the reports issued and actions taken) a sound controls framework.

## **4. Risk Management and Internal Controls:**

### **4.1.Internal Controls**

The system of internal controls incorporates risk management. This system encompasses a number of elements that make up an effective and efficient operation, thus enabling UEXO to respond to any operational, financial and commercial risks. These elements include:

- **Policies and Procedures**

The policies that underpin the internal control process are set up by the Risk Officer (coordination with the Risk Committee) and implemented and communicated by senior management to the staff. These include UEXO Standard Operating Procedures as well as the Compliance Policy and the company's Anti-Money Laundering Policy.

- **Quarterly Reporting**

Quarterly reporting is designed to monitor key risks and their controls. Decisions to rectify problems are made at regular meetings of the senior management team and Risk Officer, if appropriate.

- **Business Planning and Budgeting**

The business planning and budgeting process is used to set objectives, agree action plans and allocate

resources. Progress towards meeting business plan objectives is monitored regularly, the main concept to add budgeting here that there must be extra cost to be marched for the new process reengineering for all departments and positions in term of hiring, firing, motivation, upgrading, downgrading and internal training.

#### - **Risk Framework**

The framework is compiled by the senior management and helps to facilitate the identification, assessment and on-going monitoring of risks significant to UEXO. The document is formally appraised annually but emerging risks are added as required, and improvement actions and risk indicators are monitored regularly.

#### - **The Audit Committee**

The Audit Committee is required to report to the Risk Committee on internal controls and alert senior management to any emerging issues. In addition, the Audit Committee oversees internal audit, external audit and management as required in its review of internal controls. The committee is therefore well placed to provide advice to the board on the effectiveness of the internal control system, including UEXO system for the management of risk.

#### - **Audit Program**

Audit is an important element of the internal control process. Apart from its normal program of work, audit is responsible for aspects of the quarter & annual review of the effectiveness of the internal control system within the organization. External audits may also be used to provide feedback to the Audit Committee on the operation of the internal financial controls, but mostly for the financial figures.

#### - **Third Party Reports**

As required, UEXO might be using external consultants who are experts in certain areas such as human resources, External audit , IP...etc. The use of specialists' third parties for consultancy and reporting can increase the reliability of the internal control system.

A Risk Based Internal Audit plan will develop based on the results of the current risk profile, in relation to the level of sophistication and frequency of the activities within the core and support business units.

This is where the role of the Internal Audit Function (Internal Auditor) of UEXO comes into play. During the execution of the Risk Based Internal Audit Plan, the assurance provider will consider both strategic and related business process risks.

The plan will not only support and monitor the implementation of management's actions related to finding of Internal audit plan and reporting along with Risk committee remarks and action plan, but will also ensure that the audit effort is directed at the areas of highest risk and/ or the largest potential improvement within the control environment. With a risk profile of this nature, the Stakeholders needs to satisfy themselves that the management and assurance providers (Internal Audit, External Audit and others) on the mitigation of such risks, are providing sufficient and timely assurance.

## 4.2.Types of Risks

“ UEXO ” categorizes its principal risks into three main areas:

### A. Operational Risks

“ UEXO ” believes that the key operational risks arise from the following:

- Non-updated, follow up of new technologies and automated process or breakdown of the IT infrastructure.
- Loss or nonexistence, absence of key personnel
- Damage to or loss of the office buildings and equipment.

“ UEXO “ recognizes that it is important that the company is able to continue operations in the event of disruption to or loss of key resources upon which the company is dependent on. The company has prepared the Business Continuity and Disaster Recovery Plan which identifies the critical resources required to support the business operations of the company and is designed to reduce business risk to an acceptable level by minimizing the damage to and ensuring the restoration of these resources within a reasonable time frame in the event of a disaster, that’s why in the beginning of this manual, that risk management is part of corporate governance and the main factor for that is people as personnel.

### B. Risks of Breaches in Internal Controls

" UEXO " recognizes its responsibility to ensure that control systems are in place to monitor and manage risks relating to internal compliance with regulator's requirements (DFSA/ UAE Central Bank/ SCA/ADGM and the company's internal rules and regulations as per best practices plus to other regulation outside UAE classified as offshore regulations where its regulated entities that UEXO may do business with these entities outside UAE as UEXO Group. Procedures to monitor these risks and ensure adherence to the company's Compliance Manual, Anti-Money Laundering Policy Manual and Operations Manual are carried out by UEXO’s Compliance Officer.

### C. Financial Risks

The Board of UEXO will lay down policies regarding identification, measurement and control of Market Risk (Interest rate risk, equity price risk) and Liquidity Risk and Credit Risk both in the trading and all other activities. UEXO will establish an Asset and Liability Committee “ALCO” to address the key financial risks facing the business. The primary risks envisaged to arise and the strategy for controlling them is as follows:

- Market Risk: UEXO assumes market risk by introduce client from high risk area or with background with criminal records or client’s country used to be sanction.

The strategy for controlling market risk will include:

- Direct involvement of experienced line management.
- Stringent controls and limits- part of the function of the Risk Management committee/ department will track and monitor the magnitude of the market risk and independently advice the top management/ ALCO (Asset Liability Committee) on adherence to the prudential risk limits.
- Strict segregation of front and back-office duties.
- Comprehensive periodic reporting of positions.

- Regular independent reviews of all controls and limits
- Responsibility for the management of dealing and reporting positions throughout UEXO will be centralized in the Finance Department. This includes the exposure arising in UEXO offices and branches, transactions with customers as a part of the day-to-day UEXO operations. A copy will be endorsed to the COO for his information and record.
- ALCO will be responsible for management of UEXO structural Position if any and will take all the necessary decisions to manage such exposure.
- Board of Directors of UEXO will approve and amend the policy, at the recommendation of ALCO. The policy will be reviewed once a year.

Such financial risk must be conserved very well in term of the area that UEXO is looking to contract with and introduce client to.

- **Liquidity Risk:**

Liquidity represents the ability to accommodate decrease in liabilities and to fund increase in assets. Liquidity risk arises from fluctuations in cash flows. It is defined as the risk of UEXO being unable to fulfill its current or future payment obligations in full and/ or at the due date.

The objective of the Liquidity Policy is to effectively manage the liquidity risk by maintaining adequate liquidity at all times to meet loan demand and deposit withdrawals, minimum cash balances, unexpected outflows etc.

**UEXO strategy for managing liquidity risk will include the following:**

- Measuring and forecasting cash flows.
- A large and stable base of core deposits.
- Availability of liquid assets to meet unforeseen events.
- Maintaining a strong credit rating to ensure timely access to borrowings at reasonable cost and terms.
- Diversifying funding sources.
- The Finance Department (FD) would manage UEXO funds daily.
- Any major strategy would be discussed and approved by the ALCO.
- The Finance Department will also monitor and maintain adequate cash reserves as required by the regulators.
- FD will manage the following daily:

Liquidity related mostly for Assets and liability and to make sure that UEXO will be able to handle all kind of debts and ability to generate enough revenue to settle that along with exit plan in case that the business module is not willing to generate enough revenues.

- **The regulators' clearing account.**

- FD would monitor the payments to and inward remittances from other Brokerage Companies during the day and ensure an adequate balance is maintained to cover settlement.
- FD would also ensure that the minimum reserve requirement is maintained as prescribed by the regulator.

So, such a risk, is outside control by UEXO, but UEXO must work to make sure that the business that UEXO introducing client to has the needed segregation accounts between clients' money and operational

account.

- **Cash estimates.**

Daily FD would estimate the cash inflows and outflows based on the maturity of operational expenses VS expected generated revenues procured by other parties that UEXO has a contractual agreement with.

- **Credit Risk:**

Credit risk is most simply defined as the potential that a client will fail to meet its obligations and how costly it will turn out to be if it does occur.

UEXO policies will include the following:

- Establishing an appropriate credit risk environment.
- Operating under a sound credit-granting process.
- Maintaining an appropriate credit administration, measurement, and monitoring process
- Ensuring adequate controls over credit risk.
- Implementing Basel II -related to Min Capital requirement, Regulatory supervision, and market discipline-in assessing credit exposure for customers and for credit facilities.
- The final responsibility for approving and reviewing UEXO risk management strategy and policy rests with the Board of Directors. The executive management is responsible for implementing the policies and strategies approved by the Board of Directors.
- The ALCO will have the authority to approve the following within the constraints of the policies approved by the board of directors:

A- Strategies for management of liquidity, market, and credit risks.

B- Procedures to manage and monitor liquidity, market, and credit risks.

The Compliance Officer of UEXO is responsible for recommending any amendments in the policy to the Board through ALCO for approval.

UEXO must before engaging with any contractual agreement with any regulated entity, to make sure that entity is solid financial along with 5 Cs as credit, collator & character...etc. just to make sure that going concern assumption is valid and based on that there will be constant revenue with no delay in payment.

- **Professional Liability Risk:**

UEXO is committed to providing appropriate training and controls to ensure that its employees conduct their business with due care and diligence. UEXO mandate agreements with its customers should include a standard indemnity clause which reduces the professional liability exposure of its employees except for fraud and/ or gross negligence, also include risk disclaimer related to regulated entity that UEXO in introducing client to.