

CREDIT RISK POLICY

OBJECTIVE

The business operations expose the company to various risks including credit risk. The purpose of the Credit Risk Policy is to formalize and document the approach that the KALIOS COMMODITIES FZCO takes to manage counterparty risk with the purpose to limit the potential loss from a counterparty failing to meet its obligations.

The Board of the company is the ultimate owner of the risk appetite and therefore all Credit Risk Principles. This policy is owned by the CFO with oversight of its deployment provided by the Board.

GENERAL POLICY

Under the guidance and approval of the CFO, the finance department will provide the following activities to mitigate credit risk:

- Execute counterparty analysis.
- Maintain list of approved counterparties
- Get approvals from the Board members for any trade that has risks.
- Execute exposure calculation and analyze the credit exposures.
- Overview and manage securities to be covering the risks in question.
- Monitoring of limits breaches
- Monitoring of adverse events relating to counterparties (upgrades/downgrades) and liaise with related parties to identify potential credit risk issues
- Recommend for approval on extension of existing credit limits
- Preparation of periodic credit reports for review

RISK DEFINITIONS

Credit Risk represents the potential loss from a counterparty failing to meet its obligations in accordance with agreed terms. Credit risk can be split into two risk types, performance risk and settlement risk, which are further set out in the paragraphs below.

- **PERFORMANCE RISK:** Performance risk represents the risk that counterparty defaults on contractual obligations before settlement of the contract. It corresponds to the replacement risk for a contract that has a positive market value.
 - Loss of profit or
 - Potential loss on resale under existing market conditions.



- **SETTLEMENT RISK:** Settlement risk is defined as the risk of loss in case of default. This arises from:
 - All commodities already delivered, but not yet paid for or
 - Prepayments made but products not yet received.
- **PRICE RISK:** Price risk is defined as the risk of financial loss/profit in prices of products that can take place due to market fluctuations. This can take place due to:
 - Mismatch of pricing formulas
 - Mismatch of pricing tenors or
 - Unsold products or
 - Any combination of the above.
- **TOTAL RISK:** The gross credit risk exposure is the sum of both performance risk and settlement risk.

COUNTERPARTY ANALYSIS AND ONBOARDING

- **INITIAL ACCEPTANCE & KYC:** Upon request to trade with a new counterparty, and prior to any trading being concluded, compliance personnel will complete a number of checks. The essence of these checks, or KYC (know your customer) process, is to establish that the new trading entity has the necessary legal standing and identify the ultimate beneficial owner. In addition to the above information, background checks are made on the key personnel involved within the company to check for adverse information and whether a beneficial owner is a Politically Exposed Person. The company will use any and every technological tool available at the time for the proper finalization of this process. After finalization the accounts will be open to do trade deals without any risk basis.

CREDIT LIMITS AND TENORS

Depending on the requirements of the trade; clients will be assessed for credibility of the related transaction.

- As standard practice, all trades will initially be based on risk free approach.
 - All risks to be addressed by financial instruments or,
 - No release of products before receiving of payments or,
 - No release of payments before taking of ownership of products.
 - No price risks on the deal
- If there is a requirement to take any risks not covered by the above definition these will need to be approved by the Board:
 - Finance department to prepare a memo to the Board members detailing risks and mitigating factors.
 - Get joint written approval from all members for each deal.
- All approvals on trade deals are done on case by case basis. All approvals are cancelled after close of every deal.
 - New approvals will be required for each new transaction.



CREDIT DOCUMENTATION

Credit files will be created and maintained for all counterparties. Credit files will contain all documentary support of the counterparty credit relationship.

- Contracts and correspondence.
- Copies of financial instruments of the transaction.
- Email approvals of the Board members.
- Credit files may also include the financial statements, rating agency reports, analyst research, executed agreements, copies of guarantees, and other pertinent information.

RISK MONITORING

- All open risk will be monitored by the Finance department and breaches of limits will be reported to the Board on a weekly basis:
- Passive breach:
 - Volatility of commodity prices
 - Change in counterparty's creditworthiness
 - Change in the approved price risk limit of the deal.
- Active breach:
 - Inappropriate/unauthorized transactions

The Credit Manager will suggest remediating action as follows:

- Temporarily accept breach:
 - Breach up to %10 will be acceptable with CFO approval.
 - Any breach higher than %10 would need Board approval.
- Take action to reduce breach:
 - Instruct operations to contact breaching party and request security or payment to cover for breach
 - Reevaluate options on price risks by either changing selling conditions or using financial instrument to change them

RISK REPORTS

In order to effectively monitor counterparty risk, the Finance department will prepare and circulate the appropriate management reporting on all open trade risks. Indicative reports required:

Monthly Reports

- Risk Report: Total risk exposure by counterparty and security (financial instrument etc.)
- Limit Breach Report: Summary of all open limits breached with details on follow up actions.
- Problem Credits Report: Summary of all problem credits (if any).



POLICY ADOPTION, COMPLIANCE AND AUTHORIZATION

Any deviation from this policy requires the approval from the Board.

Continuous review and revision will keep this policy current with strategic intent. Finance department will notify any the Board of the deviations in practices of the policy.

Violations of policy will be addressed with an agreed upon escalation procedure and schedule of actions. These escalation procedures and actions may focus heavily on certain breaches such as excesses of trading and risk limits. Amendments to the Credit Policy will be subject to the approval of the Board. Amendments will be effective immediately upon approval.

The Board will review this policy at least annually to ensure all provisions are current with industry, leading practices and strategic intent.

