

## CETHEREUM RISK ASSESSMENT

This Risk Assessment seeks to identify, analyze and understand risks as a preliminary step to mitigate those risks in the most effective manner possible. Specifically, this Risk Assessment addresses the following four risk areas:

- 1) Products, services, and delivery channels;
- 2) Geography;
- 3) Clients and business relationships; and
- 4) Other relevant factors.

The procedure for the assessing risks under this Risk Assessment is as follows:

1. Define the inherent risk factors
2. Weight the inherent risk factors as per methodology
3. Collect the data and subject it to appropriate review
4. Score the inherent risk factors to arrive at both
  - a. an individual risk category rating, e.g. High, Moderate, Low (“HML”); and
  - b. an overall HML score
5. Define the control effectiveness categories
6. Identify all the controls and map either to:
  - a. the Controls categories:
    - i. Weight the Categories based on importance, number of controls, number of key controls; and
    - ii. Score the control effectiveness by aggregating the results to get an overall HML score; OR
  - b. the Inherent risk categories:
    - i. Weight the controls based on importance, key Controls.
    - ii. Map the Controls to each of the Inherent risk categories and score those controls in aggregate against each risk category; and
    - iii. Aggregate the control effectiveness categories to get an overall HML score;
7. Note and record the shortcomings or weaknesses in each of the identified controls for future remediation work (see 10 below)
8. Take the overall inherent risk score and apply the controls effectiveness score by applying the residual risk matrix
9. Arrive at the residual risk and determine at the appropriate governance body whether the residual risk is within Cethereum’s risk tolerance/appetite; and
10. Determine the remediation action plan covering those items in 8 above that are determined as being in need of further action, by whom and by when.

## FACTOR WEIGHTING

<b>Inherent Factor Weighing</b>	
<b>Inherent Factor</b>	<b>Inherent Weighting</b>
Channels	5 – 10%
Clients	25 – 35%
Country/Geography	20 – 30%
Products & Services	20 – 30%
Other Qualitative Risk Factors	10 – 15%

<b>Control Factor Weighting</b>	
<b>Control Factor</b>	<b>Control Weighting</b>
KYC (incl. All requirements)	20 – 30%
Monitoring & Controls	20 – 30%
Policies & Procedures	10 – 15%
Other Risk Assessments	10 – 15%
AML Corporate Governance, Management Oversight & Accountability	5 – 10%
Management Information/Reporting	5 – 10%
Record Keeping & Retention	5 – 10%
Designated AML Compliance Officer/Unit	5 – 10%
Detection and SAR Filing	5 – 10%
Training	5 – 10%
Independent Testing & Oversight	5 – 10%
Other Controls/Others	5 – 10%

## INHERENT FACTOR RATINGS

<b>Clients 1 – Persons</b>	<b>Rating</b>
<b>Individuals</b>	
- High Net Worth	High
- Retail	Low
- Other	Moderate
<b>Entities</b>	
Publicly Held Companies	
- Recognized Stock Exchange	Low
- Unrecognized Stock Exchange	Moderate
Privately Held Companies	
- Operating Company	Low
- Non-Operating Company	Moderate
- Bearer Share Company	High
Government Entities	
- Domestic	Low
- Medium Risk Country	Moderate
- High Risk Country	High
- Higher Risk Country	Higher
Financial Institutions (“FI”)/Banks and Regulated Brokers	
- Recognized Stock Exchange plus Compliant Country	Low – Moderate
- Partially Compliant and not Compliant Country	Moderate
- Unrecognized Stock Exchange and Non-Compliant Country	High/Higher

<b>Clients 2 – Special Categories with Increased Risk Attributes</b>	<b>Rating</b>
<b>Politically Exposed Person</b>	
- Domestic	Moderate
- International	High
<b>Industry</b>	
- MSBs	Moderate/High
- Charities and Non-Profit Organizations	Moderate/High
- Intermediaries/Commission agents	Moderate/High
- Real Estate Agents	Moderate/High
- High Value Goods Dealers	Moderate/High
- Precious Metals & Stones Dealers	Moderate/High
- Gatekeepers (lawyers, accountants, etc.)	Moderate/High
- Casinos, including Internet Gambling	Moderate/High
- Arms Dealers	Moderate/High
- Private Military Firms	Moderate/High
- Digital Currency Providers or similar	Moderate/High

<b>Examples of Increased Risk Products &amp; Services</b>	<b>Rating</b>
Alternative Investment/Structured Products	Moderate/High
Trade/Export Finance	Moderate/High
International Private Banking/WM	High
International Correspondent Banking	High
- International Wires	High
- Pouch Services	High
- Precious Metals (Physical Delivery)	High
- Banknotes	High
- Payable-through Accounts	High
- Downstream Clearing	High
Special Use Accounts	High
International Brokered Deposits	High
Safe Deposit Services	High
Precious Metals (Delivery) Services	High
Unlimited Cards	High
Benchmark and Other Setting of Indices	High

<b>Examples of Increased Risk Transactions</b>	<b>Rating</b>
Significant/Unusual Cash/Cash Like	High
Pass-through Transactions	High
Nested accounts	High
International Wires to High Risk Countries	High
Suspected Shell Company Transactions	High
Rapid In/Out (High Velocity Turnover)	High
Unusual Wire Transfers	High
Smurfing	High
Suddenly Active	High
Other Unusual/Suspicious	High

<b>Channels Risk</b>	<b>Rating</b>
Account Origination	
- Solicited	Low
- Unsolicited	High
Account Servicing	
- Face-to-face	Low
- Only non-face-to-face (including mail, phone, text, video, internet)	Moderate/High
- Only non-face-to-face via intermediary, including Gatekeepers	Moderate

<b>Geography/Country Risk</b>	<b>Rating</b>
Own Bank/FI Locations	
- Higher Risk Countries	Higher
- High Risk Countries	High
- Moderate Risk Countries	Moderate
- Low Risk Countries	Low
Client Locations	
- Higher Risk Countries	Higher
- High Risk Countries	High
- Moderate Risk Countries	Moderate
- Low Risk Countries	Low

<b>Other Qualitative Risk Factors</b>	<b>Rating</b>
Client Base Stability	Low/Moderate/High
Integration of IT Systems	Low/Moderate/High
Expected Account/Client Growth	Low/Moderate/High
Expected Revenue Growth	Low/Moderate/High
Recent AML Compliance Employee Turnover	Low/Moderate/High
Reliance on Third Party Providers	Low/Moderate/High
Recent/Planned Introduction of New Products and/or Services	Low/Moderate/High
Recent/Planned Acquisitions	Low/Moderate/High
Recent Social Projects and Initiates Related to AML Compliance Matters (e.g. Remediations, Eliminations of Back-logs, Offshoring)	Low/Moderate/High
Recent Internal Audit or Other Material Findings	Low/Moderate/High

## RESIDUAL RISK CALCULATIONS

Residual Risk Calculation		
Inherent Risks	Controls Strength	Residual Risks
Low	95 – 100%	Low
	90 – 94%	Low to Moderate
	85 – 89%	Moderate
	80 – 84%	Moderate to High
	<80%	High
Moderate	95 – 100%	Low
	90 – 94%	Low to Moderate
	85 – 89%	Moderate
	80 – 84%	Moderate to High
	<80%	High
High	95 – 100%	Low
	90 – 94%	Low to Moderate
	85 – 89%	Moderate
	80 – 84%	Moderate to High
	<80%	High