



CAPITAL MARKETS LTD

- › **General Framework of Risk Policies**
- › **Risk Review Structure for Convexity's Series**



# 1. Introduction

All business entities face an unavoidable level of risk stemming from different sources and affecting a company in different ways.

The risk is inherent to all business and business activities. Proper management of risks contributes to the creation of value and the development of the business, through an adequate balance between growth, performance and risk.

In accordance with the provisions of the management, and with the objective of managing risks in an efficient manner, this Policy establishes the principles for the identifying, evaluating, managing and reporting the risks that could affect the success of the company.

## 2. Objective

The objective of the General Framework of Risk Policies (GFRP) is to identify and mitigate the risk aspects that a new transaction with either a new or existing client could entail. Thus, Lynk can protect itself from any negative effects resulting from engaging in business with an entity that is not financially healthy or potentially involved in illegal activities as well as any differences resulting from contrary interpretations of our subscription agreements.

## 3. Application

The GFRP applies to all the employees of every department that constitutes Lynk. Each department will serve as a checkpoint during the entire emission process so that every risk aspect that involving the Series is appropriately managed and mitigated.

## 4. Key Principles of Risk Management

### The key principles are follows:

1. To instruct all employees on all the characteristics that a new transaction from either an existing or a new client must contain in order to be approved for business with Lynk.
2. To standardize processes for risk mitigation.
3. To identify the different categories of risk and their possible impact on Lynk:
  - a) **Reputational Risk:** Defined as the danger that a negative public opinion will impede or diminish the capacity to do business of a person or company. This same can occur for different reasons such as: giving a bad service to a customer, violating government regulations, support criminal groups, sell harmful products and generally not responsible for decisions taken that harm third parties, when this is given to meet the public in the different media.

Lynk exposes itself to this risk by failing to identify key characteristics of the client, also known as “red flags”, that could reveal potential involvement in illegal activities or seeking to make transactions to conceal said activities and engaging in business with them. By not managing its reputational risk adequately by implementing correct risk management policies, Lynk could face important losses to its name that could drive away clientele, diminish revenues and even face investigations by regulatory agencies.

**b) Financial Risk:** Risk concerning the deterioration of value to Lynk’s shareholders from engaging in business with entities that are not financially healthy or misrepresented their financial information. The consequences could involve lost revenue and clientele and possibly litigation against Lynk for failure to identify the red flags of a risky transaction.

**c) Legal and Regulatory Risk:** Legal risk refers to the liability faced by Lynk from the failure to comply with the requirements of the Lynk Series Agreement (LSA) the client. Lynk could face litigation due to these issues if the company is not conscientious of fulfilling all its duties to clients. In addition, Lynk could also be liable for structuring securities for entities that the company knew or could have known that were in poor financial health or guilty of misrepresentation.

Moreover, regulatory risk refers to the liability faced by Lynk from not complying with laws and regulations established by regulatory agencies. This is especially relevant in terms of implementing a robust Customer Identification Program (CIP) and a Customer Due Diligence (CDD) process. Failures in this regard could bring about probes by regulatory agencies which could result in fines and criminal lawsuits. Furthermore, Lynk’s name could be severely impacted even if the company is deemed not guilty thus posing a reputational risk as well.

## 5. Phases in the Risk Management Process

### A. Preliminary Phase:

#### A. 1) Proposal for Series:

1) The first phase begins when Convexity proposes a new transaction to Lynk.

1. 1) Convexity must request all Basic Company Documents/Information (see Appendix A for details) and must guarantee the Series complies with all Eligibility Criteria (see Appendix B for details).

Note: Lynk will not accept any transaction where the underlying asset is a motored vehicle, pieces of jewelry, crypto, cannabis or works of art.

A. 2) Once the client has provided essential documents/information, Convexity will submit the essential documents/information to Lynk’s Compliance team in order to formally initiate the CIP and CDD processes.

2. 1) Lynk’s Compliance team: Performs preliminary qualitative review of the client to verify that the company’s directors are not and have not been previously involved in illegal activities. Further, they shall also verify if any of them are politically exposed persons (PEPs).

2. 2) If any red flag, adverse media or other negative result is found, Compliance team shall request additional documentations to Convexity in order to confirm or disregard the alert.

## B. Risk Review Phase:

**B. 1)** Convexity presents the proposed transactions at the Risk Review meeting. Any issues found by both the Compliance and Operations teams shall be disclosed as well as any other aspects that Convexity deems noteworthy. These issues can include concerns over findings regarding the client company's management during the preliminary compliance process, issues with the client company's financial health and profitability, quality of the financial statements received, jurisdictions involved in the transaction, tax benefits to be obtained from the transaction and the possibility of tax evasion.

**B. 2)** The Committee will also raise any concerns regarding the proposed transaction in terms of its complexity, purpose, industry in which the client company operates as well as the possible risks for Lynk if the firm engages in the transaction, among other topics they consider relevant. These risks can be reputational, legal and regulatory or financial. They will also raise any points to be included in the Series Memorandum among which are how the Series will be liquidated in the event it becomes necessary and the third parties that will be involved in said process. Said liquidation process will include a provision whereby the Issuer assumes control of the client company's assets to liquidate them and distribute the funds from the sale to investors.

**B. 3)** Once all concerns are discussed, the Risk will decide whether the transaction is approved, rejected or pending a decision. If the transaction is approved, it shall proceed to be included in the pipeline for issuance. On the contrary, if rejected, the client will be informed of Lynk's decision and the transaction will proceed no further. Finally, if the transaction is decided to be "pending", then Convexity will have to gather any additional required information or comply with mandatory requisites of the product type and present the proposition once again at the next Risk Review meeting.

**B. 4)** Risk Review Requirements:

1. The list of Risk Review requirements for each Series is detailed in the following site:

<https://lynkcm.com/risk-review-requirements>

## C. Compliance

### C. 1) Know Your Client (KYC)

1) Lynk requests from Convexity the remaining Essential Company Documents to formally initiate both the CIP and CDD procedures. The latter two processes will be more thorough than the ones performed in the preliminary checks since apart from the basic documents, Convexity will be required to provide all the information of beneficial owners for the Series. If said owners are institutional investors, then a CDD shall also be carried out on them. The CIP and CDD purposes serve a dual purpose: First, they seek to obtain information about the client company itself in terms business purpose, jurisdiction of incorporation as well as of operations and volume of business received. Second, they verify the criminal background of both the client company's management and its beneficiary owners. The ultimate objective of the KYC is to ensure that Lynk is engaging in business with clients with minimal involvement in criminal activity, both in the past and present, and who are not looking to use our services for money laundering purposes, tax evasion or any other activity that could suppose a legal risk for the company.

### **C. 2) KYC Requirements:**

- 1) The list of KYC requirements for each Series is detailed in the following site:  
<https://lynkcm.com/schedule-kyc-connect>

## **D. Issuance**

**D. 1)** Once the transaction is approved by all Compliance instances, Lynk will generate all necessary information to Operations/Legal Team and Service Providers in order to issue the Series.

**D. 2)** The purpose is to ensure that the Series is structured on sound legal foundations and does not contain any flaws that could hinder the client from reaching their goals or, in the event of a default, could impede noteholders from exercising their recourse over the loan's collateral. This constitutes a key detail for Lynk since issuing a transaction containing legal flaws would make the company liable for not providing the means by which the investors could exercise their rights to safeguard the funds they invested.



# 1. Client Risk Assessment Review

The purpose of this Review is to evaluate the risk implied by undertaking a proposed Series with a given client. The criteria used to make this assessment include:

- 1) Type of Lynk product.
- 2) Industry in which the client operates.
- 3) Jurisdiction where the Underlying entity was incorporated.
- 4) Jurisdictions from which the Underlying entity's capital sources originated.
- 5) Jurisdictions where the beneficial owners of the Underlying entity are domiciled.
- 6) Jurisdictions where the directors of the Underlying entity are domiciled.
- 7) Whether any of the following high-risk individuals or factors are involved with the Underlying entity:

- › **Politically-exposed persons (PEPs)**
- › **Cash and cash equivalent business**
- › **Casinos, betting and other gambling-related activities**
- › **Businesses that are not normally cash intensive but that generate substantial amounts of cash for certain transactions**
- › **Unregistered charities and other unregulated 'not for profit' organizations (especially those operating on a 'cross-border' basis)**  
**The use or involvement of intermediaries within the relationship (unless the intermediary is subject to adequate AML/CFT regulation and is supervised for compliance with such regulation or otherwise employs adequate AML/CFT procedures)**
- › **Dealers in high-value or precious goods**
- › **Extractive industries (e.g. oil, gas and mining)**
- › **Complex ownership structures**
- › **Negative news**
- › **Nominee shareholders**
- › **Bearer shares**
- › **Sanctions**
- › **Beneficial owners with high-risk or unknown source of wealth**

## 2. Appendix A – Documents and Information

### A. Essential Company Information for Client, Underlying Entity and any Third Party Paying Entity:

- A. 1) Type of Product
- A. 2) Company entire name (including the type of company e.g.: Ltd, LLC, C.A.)
- A. 3) Jurisdiction in which company was founded.
- A. 4) Jurisdiction of source of funds (where the company generates revenues)
- A. 5) Jurisdiction of residence for Director and Shareholders  
[See below for List of Forbidden Jurisdiction](#)

### B. List of Forbidden Jurisdictions:

B. 1) Lynk will not do business with any entity based in any of the following jurisdictions or if the transaction for any reason involves moving funds through any of them (last updated on July 17, 2020):

- › Afghanistan
- › American Samoa
- › Bahamas
- › Barbados
- › Belarus
- › Bosnia and Herzegovina
- › Botswana
- › Cambodia
- › Cuba
- › Democratic Republic of the Congo
- › Ethiopia
- › Ghana
- › Guam
- › Iran
- › Iraq
- › Ivory Coast
- › Jamaica
- › Lao PDR
- › Libya
- › Mauritius
- › Mongolia
- › Myanmar
- › Nicaragua
- › Nigeria
- › North Korea (Democratic People’s Republic of Korea)
- › Pakistan
- › Panama
- › Puerto Rico
- › Samoa
- › Saudi Arabia
- › Serbia
- › Sri Lanka
- › Sudan
- › Suriname
- › Syria
- › Trinidad & Tobago
- › Tunisia
- › Uganda
- › US Virgin Islands
- › Vanuatu
- › Venezuela
- › Yemen
- › Zimbabwe

**B. 2)** The countries included in the list above can be verified in the following links:

Financial Action Task Force list of high-risk and monitored jurisdictions:

› <http://www.fatf-gafi.org/countries/#high-risk>

European Commission list of High Risk Third Countries:

› <https://www.lawsociety.org.uk/topics/anti-money-laundering/european-commission-list-of-high-risk-third-countries>

› [http://europa.eu/rapid/press-release\\_IP-19-781\\_en.htm](http://europa.eu/rapid/press-release_IP-19-781_en.htm)

### 3. Appendix B – Eligibility Criteria

**A.** The Underlying Entity and the Underlying Assets shall meet the following criteria when preparing the Series Summary of the Series and during the life of the Notes.

**A. 1)** It should be incorporated in and carry out its business in a FATF and OFAC non-blacklisted jurisdiction.

**A. 2)** The financial statements of the Underlying Entity are audited by an international highly regarded audit firm.

**A. 3)** The Underlying Entity shall have at least two years of audited financial statements.

**A. 4)** The Underlying Entity has engaged highly regarded service providers (i.e. Counsel, valuator of the Underlying Assets, accounting) in addition to the Auditor.

**A. 5)** No KYC issues arise under the Series On-Boarding process.

**A. 6)** It shall have a balanced financial and equity position.

**A. 7)** The Underlying Entity shall have appropriate KYC and governance policies in place as per the applicable law.

**A. 8)** The management team of the Underlying Entity must have appropriate skills and experience.

**A. 9)** There is no material threatened or actual litigation in respect of the Underlying Entity.

**A. 10)** A specific reserve/escrow account is established in respect of each Series which will be funded from the Notes proceeds to cover an amount equal to the estimate of fees that a servicer / liquidation agent with experience in distress situations may incur to release the Underlying Assets.

**A. 11)** No more than two layers of companies in respect of the ultimate entity that invests the proceeds of the Loan Agreement to purchase the Underlying Assets.

**A. 12)** Each potential Series shall be previously discussed and approved by an internal “risk committee” made up by 3-4 members who shall be Directors, employees and/or other professionals of the Company and the Client (the “Risk Committee”) in a meeting to be held before the Series On-Boarding stage begins. The Programme Administrator shall:

**A. 12. a)** Send an email to the members of the Risk Committee within a reasonable time in advance in respect of the meeting of the Risk Committee, with a summary of the envisaged transaction and the relevant support documents, including but not limited to (a) a transaction diagram depicting the flow of the proceeds of the Loan Agreement and entities involved, (b) term, principal and interest of the facility, (c) type of Underlying Assets, (d) valuation of the Underlying Assets, (e) financial position of the Borrower, (f) security package and (g) any other document that the Programme Administrator may deem necessary or convenient to check that the criteria set out herein is met; and

**A. 12. b)** Present the transaction in the meeting.

**A. 12)** Should the Underlying Entity be a newly set up company, the requirements set out in this section 1 shall apply except for that referred to in 1(iii) above.

### **The Underlying Assets.**

**A.** The jurisdiction(s) in which the Underlying Assets are located should be FATF and OFAC non-blacklisted ones.

**B.** There is no material threatened or actual litigation in respect of the Underlying Assets.

**C.** Recent valuation reports (drafted in English) prepared by an international highly regarded firm in respect of the Underlying Assets have been obtained.

**D.** The proceeds of the Loan Agreement will be the only debt source to finance the acquisition of the Underlying Assets.

**E.** In case that the Underlying consists of loans, (a) they shall be secured ones, (b) the LTV shall be no higher than 80% and (iii) the requirements set out in 2(i), 2(ii), 2(iii) and 2(iv) above shall apply mutatis mutandis in respect of the assets that may secure the payment obligations of those loans.

› **The Company and the Client may agree on further requirements, where appropriate.**

› **All documents shall be presented in English.**