



# **COL FINANCIAL GROUP, INC. RISK MANAGEMENT SYSTEM**

## **RISK MANAGEMENT PHILOSOPHY**

The analysis of risk and the identification of opportunities in evolving situations are inherent to the business of a stock brokerage. A stock brokerage does not avoid risk so much as engage it, identifying factors, isolating trends, and maneuvering its clients into advantageous positions.

This is an attitude towards risk that COL Financial Group, Inc. ("COL") carries into its corporate affairs. In line with the principle that managed risk presents opportunity, COL endeavors to create an environment where a chain of command and clear division of responsibilities allows employees to exercise supervised initiative, allowing for the controlled evolution of established systems. These systems and processes are regularly evaluated and subject to audits intended to streamline the procedures, eliminate loopholes, and improve responsiveness.

## RISK POLICY

| RISK EXPOSURE  | RISK MANAGEMENT POLICY  | OBJECTIVE   |
|--|---|---|
| <p><i>Risk associated with the Stock Brokerage Business</i></p>  | <p>COL expects its online electronic brokerage services to continue to account for substantially all of its revenues in the near and foreseeable future. Like other securities firms, revenues are basically influenced by trading volume and prices. In periods of low volume and transaction revenue, COL's financial performance may be adversely affected because certain expenses remain relatively fixed.</p> | <p>COL believes that the market for its services will eventually lead to a borderless and seamless environment especially in the flow of transactions and capital in various markets. COL is strategically prepared to allocate resources to develop its infrastructure to meet this need. Additional revenue opportunities will also be pursued such as subscription-based revenues, educational seminars, and additional add-on services.</p>   |
| <p><i>Risks Associated with an Early and Evolving Market</i></p> | <p>COL has embarked on several programs that will promote the usage of technology to take advantage of the investment opportunities of the stock market.</p>  | <p>Corporate roadshows and presentations on the use of the online trading platform will be done nationwide through co-marketing activities with business groups such as the chambers of commerce, business/civic clubs as well as universities and graduate schools. Furthermore, with the current low penetration rate of investors in the stock market, COL believes that there is a huge potential for investor growth in the Philippine market.</p>   |
| <p><i>Risk associated with Dependence on Key Personnel</i></p>   | <p>COL's operations largely depend on its ability to retain the services of existing senior officers and to attract qualified senior managers and key personnel in the future. The proponents of COL are professionals from the finance and information technology industries as well as entrepreneurs with decades of experience in the Philippine stock market.</p>   | <p>The separation from the service of any key personnel could have a material adverse effect on COL's business and financial performance. The fact, however, that certain key officers have an equity stake in COL reduces this risk. In addition, some technical personnel are covered by employment contracts which allow COL to plan for expected personnel movements. COL also owns the source codes for its operating software, giving it the ability to replace technical personnel at minimal, if at all, disruptions in operations.</p> |

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| <i>Risk associated with Local and Foreign-based Competition</i> | COL expects to encounter direct and indirect competition from local and foreign firms offering online brokerage services, established Trading Participants, as well as software development companies, banks and other financial institutions which in the future might establish their own online securities system and integrate this with their other product lines. | With its customer-centered business model complemented by its trading infrastructure and business center expansion, COL anticipates that it will be able to compete actively with other participants in the online stock trading market. COL also believes that the cost structure of foreign-based online companies and the relative size of stock market investors in the Philippines presently limit potential foreign competitors from aggressively participating in the local market.  |
| <i>Technology Risks</i>   | COL is well capitalized with over ₱500.0 million in paid-up capital thereby giving it the ability to make its system flexible and adaptable to new technologies and changing customer needs. It also has a strong and excellent team of IT programmers and consultants with years of experience and proficiency in the intricacies of trading-related programs.         | COL maintains the necessary level of system security through the installation of appropriate firewalls and application of SSL encryption technology. COL also maintains digital certificates for client authentication. Likewise, the system is designed to be redundant to ensure continuity of operations. The system has two (2) parallel servers concurrently operating at two (2) secured sites that are connected to different ISPs and we are currently looking at adding another Disaster Recovery site to be hosted at a major telecoms facility.  |
| <i>Risk of Power Interruption/ Power Failure</i>                | Power interruption and power failure can adversely affect the efficient execution of COL's transactions and operations.   | COL's development strategy includes the deployment of all appropriately configured backup hardware and software in a backup data center. The backup site will be of a 'Hot' nature. A Hot backup site has a virtual mirror image of COL's current data center, with all systems configured. All trading and customer data are transferred from the main site to the backup facility at the end of each trading day to ensure that in case of complete failure on the primary site, only one day's worth of data at the most will be lost. Any and all changes made to system and application software are also done to the backup site systems. |

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| <i>Administrative and Operation Risks</i> | <p>An effective customer service team is necessary to handle client needs and is critical to COL's success. However, COL's customer service capacity may be severely constrained at times. Suboptimal customer service could damage COL's brand name and affect the quality of service it provides to its customers.</p>  | <p>Recognizing the importance of customer service, COL has established a customer service team which went through a rigorous training program to address the technical and website navigation concerns of the customers. The customer service team can be expanded, as the need arises, to meet COL's operational requirements. A Relationship Manager desk was also set up to assist the needs of high-end customers and a team of New Account Officers was formed to respond to navigational, technical and account queries of walk-in customers. COL also has a full complement of support staff from its information technology and research departments trained to serve as additional customer service officers.</p> |
| <i>Fiduciary Risk</i>                     | <p>Where there is a relationship of trust and reliance between a broker and a customer, that relationship gives rise to a fiduciary relationship. A fiduciary, like a trustee, is subject to rigorous duties of loyalty and care and must conduct its activities with the utmost good faith and integrity while keeping the customer's best interest in mind. A breach of fiduciary duties to customers could result in a potential financial or reputational loss.</p> | <p>A comprehensive and detailed set of procedures have been established to ensure that obligations to clients are discharged faithfully and in accordance with the governing legal and regulatory requirements especially in the custody and processing of customers' cash and securities.</p>   |
| <i>Credit Risk</i>                        | <p>Virtually all capital markets and trading transactions are exposed to credit risk. Credit risk is the risk of economic loss from the failure of the obligor to perform the terms and conditions of a contract or agreement. It is inherent to the stock brokerage business as potential losses may arise due to the failure of its customers and counterparties to fulfill their trading obligations on settlement dates or the</p>                                  | <p>The business model of COL minimizes its exposure to credit risk since customer accounts are opened on a prepaid basis. Customers' purchase transactions are limited to the available cash balance in their accounts. COL has established policies and procedures in evaluating and approving applications for margin financing as well as the review of credit performance and limits. In addition, a set of criteria have been established to identify securities that are</p>   |

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| <i>Risk of Infringement</i> | <p>possibility that the value of collateral held to secure obligations becoming inadequate due to adverse market conditions.</p> | <p>eligible for margin trading. This list of marginable stocks is monitored to ensure that they continue to qualify. Finally, while there are statutory requirements relative to margin limits and cover, COL has put in place a more conservative set of requirements for monitoring the daily activities of its margin accounts.</p> |
|                             | <p>COL may receive notices of claims of infringement on the proprietary rights of other groups.</p>                              | <p>COL uses proprietary systems and maintains a policy of purchasing hardware/software only from licensed dealers /manufacturers.</p>  |