Risk and Internal Control Policy
AK Nordic AB

Risk and Internal Control Policy

POLICY / PROCESS TITLE	OWNER	DATE
Risk and Internal Control Policy	Board of Directors AK Nordic AB	25.06.2020

Version Number	Purpose of Change	Change Originator	Date
1.0	Creation		25.06.2020
2.0			

Specific Changes Made	Section / Page / Appendix

APPROVED BY

MANDATORY	ROLE / AUTHORITY	DATE

1. Purpose and Introduction

The Board of Directors of AK Nordic AB (**«the Company»**) has adopted this *Risk and Internal Controls Policy* with the purpose to ensure sound and adequate risk management and internal control in line with the Company's goals and strategies.

This Policy shall be seen in conjunction with the *Corporate Governing Document* and *Risk Appetite Statement* as set by the Board of Directors. The documents outline the governing structure for managing risk and internal control in the Company and ensure that risk management is embedded in the Company's business processes and practice. Moreover, it ensures that the Company implements measures to continuously validate and control the status of current and new risks.

The Company will ensure that there are governing documents that supports and fulfills the requirements laid down in this policy. Guidelines for how the Company works with risk management and internal control is stated in own policies adopted by the Managing Director.

2. Governing Principles

The Company shall have a comprehensive process for risk management and internal control. The Company's risk capacity and risk appetite shall be assessed at least once annually.

Based on the Company's risk capacity and risk appetite, the Company will take appropriate measures. Implementation of risk reducing measures and controls are evaluated by the Managing Director. Risk reports are submitted to the Board of Directors quarterly.

3. Roles and Responsibilities

The Board of Directors; The responsibility of risk governance falls to boards of directors, who should:

- Provide oversight, direction, and input to the establishment of the risk appetite statement
- Ultimately own and approve the risk appetite
- Use a risk appetite framework and statement as a guide in working with management to assess and set overall corporate strategy
- Leverage the risk appetite framework to evaluate individual strategic decisions and establish a consistent and transparent decision-making process
- Establish regular dialogue about risk appetite with executive management in order to develop a collaborative and iterative process and avoid making risk decisions in isolation
- Routinely receive reporting from management on the organization's conformance or lack thereof with the established risk appetite
- Ensure that senior management promotes a risk culture consistent with the statement of risk appetite and that it translates the risk appetite statement into meaningful and explicit incentives and constraints for the business lines.

The Managing Director is responsible for overall risk management and infrastructure and should:

- Work with the board to set corporate strategy that is consistent with risk appetite
- Provide input to the development of the risk appetite statement
- Establish regular dialogue about risk appetite with the board and with business units, ensuring that risks taken by the business adhere to the overall risk appetite
- Identify strategic emerging risks and drive implementation of stress testing and scenario planning
- Articulate and translate risk appetite, making it relevant to the business units
- Establish appropriate controls, policies, and reporting processes that enable business units and functions to

own and manage their risks within risk appetite
- Maintain periodic reviews with risk management and the business units to identify emerging risk issues and their potential impact on compliance with risk appetite.

The Risk Management Function seeks to strengthen the Company's overall risk management activities as well as helping the Company manage risk on a day-to-day basis, i.e. identify, analyze, mitigate, monitor and report on key risks and key risk indicators. Specifically, the risk management function, in coordination with the Management Director and Chief Financial Officer (CFO), should:

- Develop a risk appetite statement and risk appetite framework with input from the board and management, that are consistent with the overall corporate strategy
- Communicate the risk appetite and framework and, as necessary, recommend updates to reflect new, emerging, or changing risks
- Establish limits, monitor actual risk utilization, and take action, as appropriate
- Report to the risk committee of the board and the CEO

Business units and supporting functions should with respect to risk ownership:

- Review business line strategies to ensure that they align with the organization's overall corporate strategy and risk appetite
- Operate within defined limits and seek approvals when limit changes are required
- Monitor individual risk limits and follow an established review and approval process as needed, to ensure that the business unit or function stays within established risk parameters
- Periodically conduct meaningful self-assessments of the risks taken within their businesses and opine as to the effectiveness of the control structure they have in place to mitigate the risks.

The Compliance Function is responsible for monitoring that the Company is compliant with all applicable internal and external rules, laws and regulations and following up on relevant changes in legislation. The function should be directly subordinate to the Managing Director, who in an effective way will communicate information to the employees and the Board of Directors.

Internal Audit should with respect to risk management and risk appetite:

- Assess whether there is appropriate board and management oversight for risk appetite
- Routinely test the effectiveness of the framework in place to manage the organization's risks
- Review the organization's compliance with risk appetite
- Assess whether breaches have been escalated, reported, and addressed.

4. Three Lines of Defense

To ensure effective risk management and internal control, the Company's framework for risk management and internal control is organized according to the three lines of defense model. The model ensures appropriate segregation of duties and divides the functions into three group (lines):

- The 1st line consists of the Company's operating units, which owns and manage risks.
- The 2nd line consists of the Compliance and Risk Management Functions, who oversees the risks.
- The 3rd line consists of the internal audit, who provide comprehensive assurance, based on the highest level of independence and objectivity.

The first line is responsible for identifying, assessing, controlling and reduce risks, in addition to maintain effective internal control. This includes executing actions to secure that the business is run according to internal and external regulations. The line is connected to operational management in day to day tasks in the organization.

The second line is responsible for facilitating, monitoring and guide the implementation of effective risk management by performing its own control actions.

The third line consists of the internal audit. They are responsible for providing comprehensive assurance to the governing body, based on the highest level of independence and objectivity within the organization. The internal auditor shall provide guidance and recommendations to the managing body, as well as challenge and support them in risk related topics.

Table: Overview of the three lines of defense structure in the Company.

Board of Directors			
Line	1st line of defense	2nd line of defense	3rd line of defense
Unit	Business unit	Risk Management & Compliance	Internal Audit
Role	Owns and manage risk	Facilitates & Monitors	Validate
Responsibility	• Conduct business in accordance with agreed strategy and related risk appetite and limits. • Promote a strong risk culture and sustainable risk-return decision-making. • Establish and operate business unit risk and control structure able to ensure operation within agreed policies and risk limits. • Conduct rigorous self-testing against established policies, procedures and limits. • Perform thoughtful, periodic risk self-assessments. • Report and escalate risk limits breaches.	• Facilitate establishment of risk management policies and procedures, methodologies and tools, including risk appetite statement, and make available throughout enterprise. • Monitor risk limits and communicate with the CEO and the Board of Directors regarding exceptions. • Provide independent risk oversight across all risk types, business units and locations. • Compliance create yearly compliance plans, including evaluating the Company's compliance to external and internal regulations, up on coming regulations and education to staff.	• Perform independent testing and assess whether the risk appetite statement, risk policies, risk procedures, and related controls are functioning as intended. • Perform independent testing and validation of business unit risk and control elements. • Provide assurance to the management and the board related to the quality and effectiveness of the risk management program, including risk appetite processes.

For details on how the three lines of defense is organized in the Company, please refer to the Three Lines of Defense Policy adopted by the Board of Directors.

5. Risk Identification and Assessment

All new debt portfolios purchases, or significant operational changes are subject to a thorough and documented risk assessment to identify potential risks. Prior to new debt portfolio purchases, the Company shall undertake appropriate due diligence process.

On a monthly basis, the Company calculates its Pilar I capital requirements. This is done in accordance with the Capital Requirement Regulation (CRR) and Capital Requirement Directive (CRD).

At least yearly, the Company performs and internal capital adequacy assessment process (ICAAP). This process includes the identification and quantification of risks not covered by the assessment done in accordance with the Pilar I assessment.

6. Risk Categories

The Company shall apply an effective risk taxonomy framework for enterprise risk management purposes. Enterprise risk is defined as all risks affecting the Company's organization and business. The framework provides a structure for categorizing all key risks associated with the Company, and it establishes a structure for representing risks by grouping them into distinct categories.

Financial risk and non-financial risk are defined as the predominant risk categories in the Company's risk taxonomy framework and includes several sub-categories.

The Company is exposed to and undertakes the following types of risks:

Level 1	Level 2	Level 3
Financial	Credit	*Concentration*
		Mispricing
	Market	*Interest Rate*
		Currency
	Liquidity	
Non-Financial	Operational	*Financial Crime*
		Compliance
		Information Security
		IT
		Third Parties
		Failed Internal Processes
		Employee Relations
		Damage to Physical Assets
	Strategic	

Reputational and financial loss shall be considered as consequences applied across all risk categories. The Company's full risk taxonomy is found in Appendix 1.

To ensure that the Company's risk profile is within the Board of Directors adopted risk appetite, the Managing Director has adopted separate risk policies and procedures that details the framework for risk management further. Please refer to point 9 on related documents further below.

6.1. Financial Risk

Financial risk includes exposure to the Company's balance sheet against financial risk factors such as credit, market and liquidity risk. Below is a description of the most important financial risk categories and subcategories, and how the Company manages these risks.

Credit Risk
The Company's credit risk differs from traditional financial institutions as it does not engage in lending in traditional sense. The Company buys non-performing retail debt from other financial institutions, with the intent to recover as much as possible. Credit risk in the portfolios are related to recovery of outstanding claims from the obligors and in that sense resembles credit risk in traditional lending where the obligor is in default. Recovery in outstanding claims is therefore the main credit risk in the portfolio. However, the level of recovery rate (i.e. credit risk) will have high

dependency on the price paid for the portfolio. Underperformance of the portfolio is therefore a function of the actual recovery rate, expected recovery rate and price paid for the portfolio.

The risk of mispricing is defined as the risk of buying non-performing debt portfolios for prices above the fair value. The Company's business model is to buy non-performing credit portfolios from the market, and a limited supply of credit portfolios may pressure the company to buy portfolios even if the price is above the fair value. This may result in unprofitable portfolios and financial loss. Furthermore, non-performing debt portfolios are often sold in auction processes, which may contribute to competition driving prices above the fair value, which may result in more extensive losses and write-downs.

Concentration risk is the risk that the acquired portfolios are overexposed towards specific risk characteristics. Concentration risk distinguishes between industry concentration, geographical concentration and single name concentration. The Company is mainly exposed to industry concentration as they buy portfolios of consumer debt, and geographical concentration as they focus on Norwegian and Italian portfolios.

The Company, through the Managing Director, documents that the credit risk is within the risk tolerance limits set by the Board of Directors.

Market Risk
Market risk is defined as the risk of losses in on off-balance sheet positions arising from adverse movements in market prices. The Company is exposed to market risks in the form of interest rate risk, spread risk and currency risk.

The Company's main market risk is currency risk. Currency Risk is defined as the risk that the value of the company's positions is adversely affected when the exchange rates changes. The Company's functional currency is SEK, and the Company buys and collects debts in NOK and EUR. The Company is therefore exposed to foreign exchange rates in NOK and EUR.

Interest rate risk is defined as the risk that the value of the company's assets or earnings will be adversely affected by a change in interest rates. Interest rate risk is not directly relevant for the Company. Although the Company's acquired portfolios accrue interest after acquisition, on a portfolio level the performance is not affected by interest rate accruals, since it is unlikely that accumulated collections supersede the original face value at acquisition date. Interest rate risk will also impact other positions such as deposits at credit institutions and deposits from customers.

The Company does not hold a trading book, but it holds a portfolio of high-quality liquid assets managed as held to collect. Change in the fair value of the instruments due to change in interest rate and spread risk will not impact PL but could be realized in case the portfolio would have to be liquidised. Furthermore, the Company is exposed to changes in interest rates risk on liabilities. Its liabilities consist of deposits from the general public and a change in interest rate can change the cost of financing and thus effect the company's results.

The Company, through the Managing Director, documents that the market risk is within the risk tolerance limits set by the Board of Directors.

Liquidity Risk
Liquidity Risk is here defined as the risk that the Company will not be able to meet on-going payment obligations or must take extraordinary measures to do so.

The main driver for liquidity risk is volatility in deposits from the public. An increase in deposits will drive a requirement in stock of high-quality liquid assets (HQLA). A decrease in deposits will increase the net cash outflow. This outflow can partly be offset by selling of HQLA. Liquidity risk is managed by monitoring developments in deposits and other net outgoing cashflows. To ensure that the Company is operational, both in normal day-to-day management and in temporary or prolonged crisis situations, it is necessary that the Company maintains enough liquidity and that the company monitors the liquidity to meet future liquidity needs.

The Managing Director establish policies and procedures to manage the Company's liquidity risk.

The Company, through the Managing Director, documents that the liquidity risk is within the risk tolerance limits set by the Board of Directors.

6.2. Non-Financial Risk

Non-Financial risk is here defined as all risks other than the traditional financial risks of market, credit and liquidity. Non-Financial risk consists of operational risk and strategic risk. These are detailed further below.

Operational Risk

Operational risk is here defined as the risk of financial or reputational loss due to unwanted operational events. Such events may arise from failed internal processes, system failure, human error or other events caused by third parties or other external factors.

Operational risk includes: *Financial Crime, Compliance, Information Security, IT, Third Parties, Damage to Physical Assets, Employee Relations and Failed Internal Processes & Misconduct.*

Operational risk management aims to identify risks across the organization and ensure that adequate risk mitigation measures and controls has been established to avoid financial and reputational losses. Regular risk assessments are made, and all identified risks are to be recorded in a risk register and assigned to a risk owner. An assessment of the likelihood and consequences of each identified risk are made. The risks are furthermore ranked to prioritize risk reducing measures for the most significant risks. The Company continuously monitors the level of operational risk, including assessments of incidents and near misses that can be linked to the identified risk.

The Board of Directors sets the operational risk appetite for the Company, and the Company must document that the operational risks are within the defined tolerance level for a given business unit. The Managing Director is responsible for the risk management and internal controls systems adequately takes operational risk into account. The Managing Director ensures that necessary governing documents for operational risk management are in place.

An important part of internal control is the reporting of incidents and critical events, the implementation of measures, the escalation of significant incidents and adequate follow-up.

The Company shall promote compliance with the high ethical standards required by the Group as an organization, and with all relevant local laws and regulations relating to financial crime. The Company shall be committed to the prevention of money laundering and terrorist financing and have measures in place to reduce the risk that the business is used for any illegal activities.

Strategic Risk

Strategic risk is defined as the risk of financial or reputational loss due to the lack of established and implemented business plans and strategies, decision making, resource allocation or ability to respond to a changing business environment.

The Company's risk assessment aims to provide insights into how non-financial risk may have a positive or negative effect on the Company's strategic goals and business plans. The Company's risk appetite, tolerance levels and risk taxonomy are reviewed yearly for consistent alignment towards the Company's strategy and business plans.

Risk tolerance limits and requirements for non-financial risks are presented by the Managing Director and approved by the Board of Directors at least annually.

7. Outsourced Activities

The Company may instruct external service providers to carry out certain work or functions for the Company. In the case of work or functions of vital importance for the Company's operations, the Company shall ensure that the service provider is subjected to adequate risk management. More specifically, the Company shall ensure that the business run by the service provider does not substantially impair the quality of the Company's risk management and internal control. The Company and the service providers rights and obligations should be clearly governed in written service agreements.

The Vendor Risk Management Policy, adopted by the Managing Director, details the Company's management of outsourced activities further.

8. Reporting

Risk reporting in the Company is integrated in the yearly business plan, reporting and budgeting processes. Risk reports are presented the Board of Directors quarterly. There are also routines for reporting beyond the predefined reporting to the Board of Directors.

In addition, the Company reports incidents and escalate significant findings and events when they occur if they represent risks that are outside the risk appetite approved by the Board of Directors.

Risk Reporting	Content	Frequency	Delivered by
Risk Management Report	A description of the Company's risks against the defined risk appetite thresholds set by the Board of Directors. The report shall ensure periodical monitoring of the key risk factors identified in the risk identification process, and other relevant risk factors that can have an impact on the Company.	At each Board Meeting	Managing Director Risk Management Function
Compliance Report	An overall assessment of the compliance risk management and control environment at the Company.	Annually	Compliance Function (WSA)
Compliance Evaluation	The Compliance Function shall deliver a compliance evaluation summarizing their recent findings. This work includes evaluating the Company's compliance to external and internal regulations, following up on upcoming regulations that the Company will be subject to, and educating the staff on relevant regulations.	Quarterly	Compliance Function (WSA)

Solvency and Liquidity Reporting	Content	Frequency	Received by
ICAAP	The report shall provide a review of the Company's capital adequacy based on a risk assessment.	Annually	Risk Management Function
ILAAP	The report shall provide a description of the Company's liquidity situation and liquidity management. It shall assess the liquidity risk indicated in liquidity stress tests and analysis and describe the minimum amount of liquidity reserves required by the Company.	Annually	Risk Management Function

9. Related documents

Group Documents		
Corporate Governing Document	Disaster Recovery Standard and Procedure (IT Only)	Discounts and Mandates Policy (Europe)
Risk Appetite Statement	Credit Risk Policy	Portfolio Acquisitions Governance Process
Three Lines of Defence	Credit Risk Procedure	Incident, Personal Data Breach Standard
Business Continuity Standard	Group Vendor risk Management Policy	European Compliance Mitigation Procedure
Recovery Plan	Dialler Policy	Information Security Policy
PRA Group Europe Business Continuity Standard	European Recruitment Policy	Document Retention and Destruction Policy
Acceptable Use Policy	European Due Diligence Policy	European HR Background Screening Policy
Home Visit Guidance	Finance Manual	Personnel Handbook
Risk and Control Register		

10. Appendix

Appendix 1