Risk and Internal Control Policy
AK Nordic AB

Document Title	Owner
Risk and Internal Control Policy - AK Nordic AB	Board of Directors – AK Nordic AB

VERSION HISTORY

Version	Purpose of Change	Change Originator	Date
1.0	Creation		17th June 2020
2.0	Annual overview and different new sections and updates	Per Eriksson	10th November 2021
2.1	Annual review and minor updates	Per Eriksson, Risk Control Function	14th November 2022

REVISION HISTORY

Version	Description of Revision & Page/Appendix	Section/ Page/Appendix	Date
2.0	New sections	2, 6, 7 and 13	10th November 2021

APPROVED BY

Title	Date
Board of Directors – AK Nordic AB	12th December 2022

1. Purpose and Introduction

The Board of Directors of AK Nordic AB (**"the Company"**) has adopted this *Risk and Internal Control Policy* with the purpose to ensure a 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 adopted 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 and procedures adopted by the Managing Director.

2. Risk universe

There shall be effective governance, monitoring and control of all risks that may have a material impact on the Company's strategic, operational, or financial objectives. These risks are defined in this policy.

3. 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.

4. Roles and Responsibilities

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

- Provide oversight, direction, and input to the establishment of the risk appetite statement
- Ultimately own and approve the Company's 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 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 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 (MD) is responsible for overall risk management and infrastructure and should:

- Establish an independent Risk Control function
- Work with the Board of Directors to set corporate strategy that is consistent with the risk appetite
- Provide input to the development of the risk appetite statement
- Establish regular dialogue about the 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, procedures and reporting processes that enable business units and functions to own and manage their risks within the 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 Control 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. The Risk Control Function shall assist the MD and the Board of Directors with governance and control by providing an effective risk management framework. The Risk Control Function shall also assist management and the Board of Directors with independent information, analyses and expert opinion on risk exposures and basis for decisions.

The Risk Control Function shall have unrestricted access to information, documentation, staff, and premises to the extent necessary to fulfil its obligations.

The Risk Control Function shall be responsible for the development, management and monitoring of the Company's risk management framework. The Risk Control Function shall also assist and support the business organization in establishing and maintaining good risk management and culture.

The Risk Control Function shall, based on a risk-based approach, develop an annual risk-based plan. The risk-based plan shall be reconciled with the Compliance function, the Internal Audit function and then presented for approval by the MD and for information to the Board of Directors.

Specifically, the Risk Control Function, in coordination with the Managing Director and Finance Manager should:

- Develop a risk appetite statement and risk appetite framework with input from the Board of Directors 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 Board of Directors and the MD
- The function should be directly subordinate to the MD, who in an effective way will communicate information to the employees and the Board of Directors.

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 MD, 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 of Directors 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.

5. Three Lines Model

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 model. The model ensures appropriate segregation of duties and divides the functions into three groups (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 Control 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 first 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 function. 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 model in the Company.

Board of Directors			
Line	1st line	2nd line	3rd line
Unit	Business unit	Risk Control & Compliance	Internal Audit
Role	Owns and manages risk	Facilitates & Monitors	Validates
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 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 MD and the Board of Directors regarding exceptions. • Provide independent risk oversight across all risk types, business units and locations. • Compliance creates 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 is organized in the Company, please refer to the Three Lines Model Policy adopted by the Board of Directors.

6. Risk ownership and responsibility

The primary responsibility for effective and efficient risk management is the responsibility of the business. Risk management in the Company is a natural part of the business and should not be seen as a side-ordered activity. There shall be clear roles and responsibilities regarding risk management.

Each manager is responsible for risk management and internal control within their area of responsibility and shall continuously ensure that all employees have knowledge of the risks to which the business is exposed and how these should be managed.

7. Company-wide view of risks

The Company shall consider, in all individual business decisions or because of decisions, the risk posed by the financial stability or branding of the Company. No business transactions or positions may be entered into without the risks being clearly defined. The Company shall conduct its operations in such a way that the Company is in a stable financial position even in a materially negative external scenario.

8. Risk Identification and Assessment

All new debt portfolios purchases, or significant operational changes (covered by the New Product Approval Process Procedure) 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.

In the event of operational changes that may involve a material change in risk exposure, the Risk Control Function shall be required to evaluate whether the proposed change is consistent with the Board of Director's risk appetite before a decision is made.

On a monthly basis, the Company calculates its Pillar 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 the 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 Pillar I assessment.

9. 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	Level 4
Financial Risk	Credit Risk	Mispricing	
		Concentration	
	Market Risk	Interest Rate	
		Currency	
	Liquidity	Funding	
		Liquidity coverage	
Non-Financial Risk	Operational Risk	Financial Crime	
		Compliance / Legal	Conflicts of interests Consumer Protection Internal Governance & Control Regulatory Licenses Ethics
		Information Security	
		IT	
		Third Parties	
		Damage to Physical Assets	
		Employee Relations	
		Failed Internal Processes/Misconduct	
	Strategic Risk	Environmental, Social, and Governance (ESG)	

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.

9.1. 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 is 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 appetite 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 are 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 P&L 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 in Sweden 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.

9.2. 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/Legal, 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.

10. 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 and Outsourcing Policy Procedure, adopted by the Board of Directors, details the Company's management of outsourced activities further.

11. Reporting

The MD shall establish information and reporting structures to ensure that exposure and risk information is up-to-date and accurate. 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.	Quarterly	Managing Director Risk Control Function
Compliance Report	A quarterly report regarding the compliance risk management and control environment at the Company.	Quarterly	Compliance Function
Compliance Assessment	The Compliance Function shall deliver a compliance assessment summarizing their recent findings. This work includes evaluating the Company's compliance to external and internal regulations connected to the Compliance Function, following up on upcoming regulations that the Company will be subject to, and educating the staff on compliance relevant regulations.	Annually	Compliance Function

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 Control 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 Control Function

12. Related 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 Model Policy	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		

13. Legal prerequisite

- EBA/GL/2021/05, EBA Guidelines on internal governance under Directive 2013/36/EU
- FFFS 2014:1 (including revisions), Finansinspektionen's Regulations and General Guidelines regarding governance, risk management and control at credit institutions