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# POLICY FOR INTERNAL GOVERNANCE AND CONTROL

Aros Kapital AB, 556669-3130

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## 1 INTRODUCTION

Aros Kapital AB ("Aros") is a credit market company authorized to conduct financing business. Sound internal governance and control are essential for Aros to be run in an efficient and effective manner and this policy is the Aros board of director's (the "Board") tool for Aros to achieve its long-term strategic goals and maintain a sound culture.

This policy for internal governance and control (the "Policy") applies to all activities that Aros conducts and is a part of Aros' consolidated situation (the "Aros Group"), whether in a branch, subsidiary, cross-border, internally or through outsourced operations. All types of governing documents adopted by the Aros Group shall be based on the principles set out in this Policy and be consistent with the external and internal regulations that are applicable as a result of Aros' authorizations.

## 2 PURPOSE

The Policy aims to maintain good governance, trust and to ensure effective and efficient management of the risks associated with the business.

## 3 EXTERNAL AND INTERNAL REGULATIONS

### 3.1 EXTERNAL REGULATIONS

In order to be able to conduct operations that require an authorization and manage the risks associated with the Aros Group's operations, the Aros Group must comply with external regulations. "*External*" regulations refer to all regulations that are not the Aros Group's own governing documents. Examples of external regulations are EU regulations, directives, laws, Swedish Financial Supervisory Authority ("SFSA") regulations and general guidelines.

### 3.2 INTERNAL REGULATIONS

The internal governing documents constitute the internal regulations and ensure that, when implemented, the Aros Group complies with external rules in a way that is relevant and appropriate for the operations conducted.

## 4 UPDATE AND REVIEW OF THIS POLICY

This Policy shall be reviewed regularly, at least annually, and updated as necessary. In the event that the Aros Group's operations change in a significant way, for example through the introduction of new product types or establishment in new markets, this Policy shall always be adjusted accordingly.

Aros Group's control functions, such as the Risk Control Function, the Compliance Function and the Internal Audit Function, shall evaluate the effectiveness of the Aros Group's internal governance, control and risk management with appropriate periodicity and scope, and report back to the CEO and the Board.

## 5 PRINCIPLES OF INTERNAL GOVERNANCE AND CONTROL

The concept of internal governance within the Aros Group encompasses all standards and principles that affect:

- goals, strategies and risk management;
- how the Aros Group runs its business;

- how responsibilities and mandates are defined and allocated;
- how reporting channels are set and what information is to be reported;
- how the governance framework is designed and implemented, including processes for accounting and financial reporting; as well as
- remuneration to employees and senior executives.

Internal control within the Aros Group is defined as the framework within which Aros is responsible for managing the risks that arise when the Aros Group runs its business, as well as the controls that are implemented to ensure compliance with internal and external regulations.

## 6 ORGANIZATIONAL STRUCTURE

### 6.1 LEGAL STRUCTURE OF THE AROS GROUP

The Aros Group consists of a Swedish parent company, Aros Kapital AB (556669-3130),<sup>1</sup> and a Swedish subsidiary, Aros Kapital Europe Holding AB (559311-6451). The Aros Group also conducts business in the UK, through an English private limited company, Aros Kapital Limited (12436394), which is controlled by Aros Kapital AB indirectly through Aros Kapital Europe Holding AB. Aros also has a Norwegian branch (826537132) through which its business in Norway is conducted.

## 7 SHAREHOLDERS, COMPANY STRUCTURE, AUTHORIZATION AND OPERATIONS

Aros is authorized by the SFSA to operate as a credit market company<sup>2</sup>. This means that Aros is subject to the supervision of the SFSA, including the Norwegian branch and the cross-border operations. Aros also falls under the supervision of Integritetsskyddsmyndigheten ("IMY") as IMY is responsible for supervision of data protection and privacy matters in Sweden.

The branch in Norway is furthermore under some supervision by the Norwegian Financial Supervisory Authority, primarily in areas relating to customer protection, conduct in the market and measures against money laundering and terrorist financing. The branch in Norway is also under supervision by Datatilsynet in respect of data protection and privacy matters.

Aros Kapital Ltd ("AKL") is supervised by the UK Financial Conduct Authority (firm reference number 939825) for anti-money laundering purposes only. AKL is subject to regulation by the UK Information Commissioners Office (ICO) in respect of data protection and privacy matters. AKL is a corporate and commercial finance provider and is included in Aros' consolidated situation.

### 7.1 REPORTING IN THE AROS GROUP

The CEO is responsible for ensuring that the Board receives sufficient information to be able to fulfil its responsibilities and make the necessary decisions. Such reporting is based on the reporting that is made to the CEO from the business. The reporting flow is shown in the figure below.

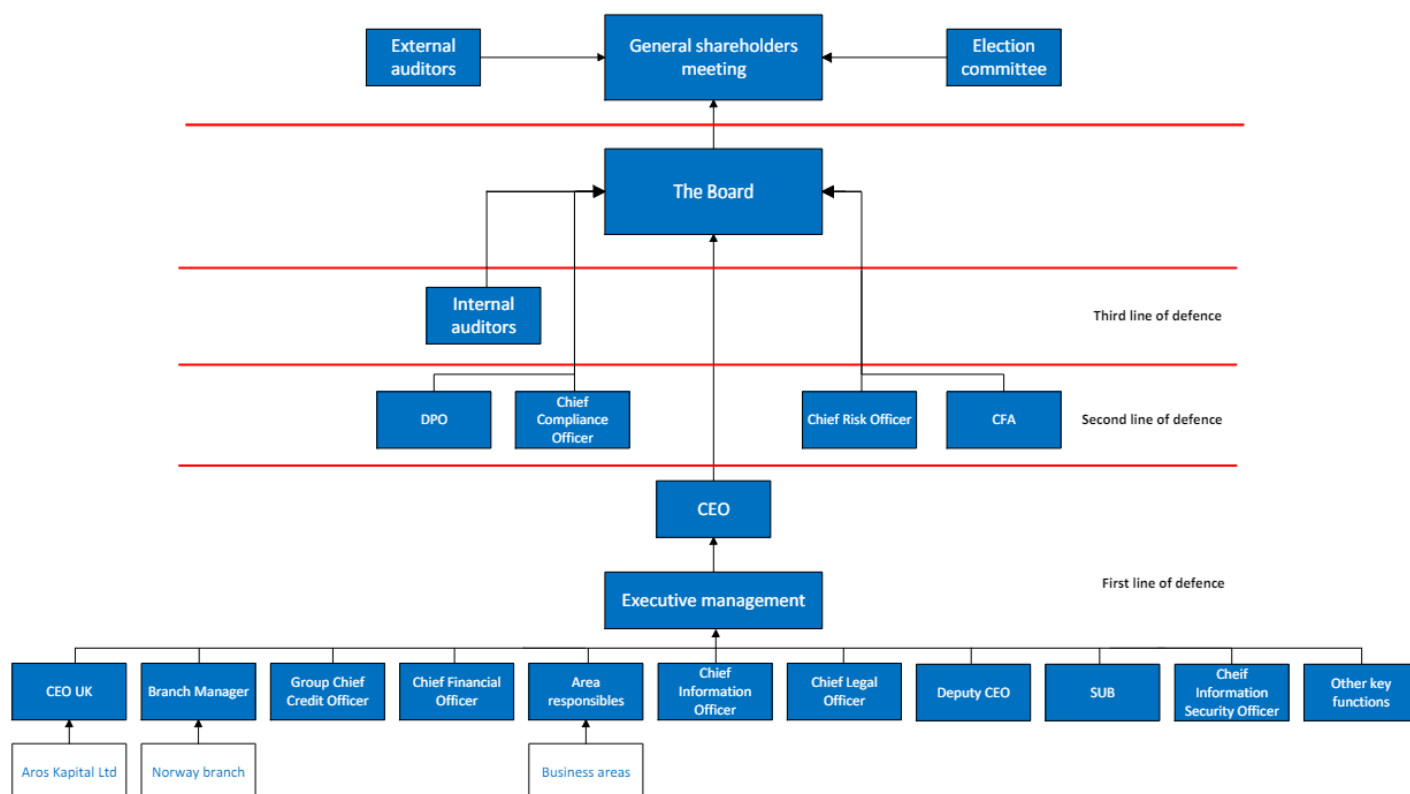
Furthermore, functions within Aros and their counterparts in subsidiaries exchange data and information regarding the operations of subsidiaries with each other, to ensure that the CEO and the

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<sup>1</sup> Aros Kapital AB is the parent company and the company responsible for the consolidated situation in accordance with 3:1 of the Special Supervision of Credit Institutions and Securities Companies Act (2014:968).

<sup>2</sup> Authorization to conduct financing business in accordance with Act 2004:297 on Banking and Financing Business was granted on 5 December 2014, institution number 41540.

Board has sufficient data and information to be able to effectively assess the Aros Group-wide risk profile.



## 8 THE BOARD

### 8.1 RESPONSIBILITIES OF THE BOARD

The Board is ultimately responsible for the Aros Group and is responsible for ensuring that the internal governance and control are adequate, suitable and appropriate in relation to the Aros Group's legal structure, operations and risks. The Board has the overall responsibility of overseeing management, including the responsibility for ensuring that the management group fulfills its duties. The Board is also responsible for setting strategic directions for the Aros Group, for example by establishing a documented business plan.

### 8.2 SUITABILITY OF THE MEMBERS OF THE BOARD

The Board is elected at the Annual General Meeting and the Board members shall have their suitability and experience assessed by the SFSA prior to taking office.

The suitability of all Board members is also assessed and evaluated annually internally, through the election committee, before the general meeting. There are documented guidelines for how assessment and evaluation are carried out. The chairman of the Board, or such person to whom the chairman delegates responsibility in writing, ensures that the annual assessments are carried out correctly and documented.

### 8.3 CHAIRMAN OF THE BOARD

The chairman of the Board leads the work of the Board, contributes to an efficient flow of information between the Board and its committees, and is responsible for ensuring that the work of the Board

functions effectively and that issues of a strategic nature are prioritized. The chairman shall promote an open and critical discussion and ensures that dissenting opinions are expressed and discussed during the decision-making process.

#### 8.4 BOARD COMMITTEES

The Board is responsible for establishing various committees to address specific aspects of governance. The purpose, responsibilities and tasks of each committee are set out in the functions respectively documented rules of procedure. Each committee consists of at least three members. The chairman of the Board shall ensure that the Board committees have sufficient time and expertise to fulfil their purpose.

The Board has established the committees listed below.

##### 8.4.1 RISK AND AUDIT COMMITTEE

The Risk and Audit Committee's main task is to provide the Board with increased opportunities for insight into and information about the Aros Group's risk management and procedures in accounting, bookkeeping and financial reporting.

Furthermore, the Risk and Audit Committee contributes to streamlining the Board's ordinary meetings by preparing decisions on issues related to reporting from the Company's three lines of defense. At least annually, the Risk and Audit Committee shall meet with the external auditor in charge, the internal auditor in charge and those responsible for the second line in order to keep themselves informed about the audit, reviews and status of outstanding observations.

##### 8.4.2 KREDITUTSKOTT

The Kreditutskott's main task is to decide on credit and limit matters and to approve credits for consideration by the Board. Decisions prepared by the Kreditutskott have first been prepared by Aros' Credit Committee or the AKL Credit Committee.

##### 8.4.3 REMUNERATION COMMITTEE

The Remuneration Committee's main task shall be to prepare material regarding remuneration decisions and remuneration frameworks prior to Board decisions. The Remuneration Committee shall also prepare policies and other governing documents relating to remuneration issues, issues related to People and Culture prior to Board decisions, as well as follow-up of audits regarding remuneration issues and regulations.

#### 8.5 BOARDS OF DIRECTORS – SUBSIDIARIES

The Aros Group recognizes the importance of local board of directors in a subsidiary and the positive contribution to effective governance that they can make, particularly in a cross-border context where they can represent a valuable source of local expertise and insight into local legal and regulatory environments. Subsidiary board of directors can also provide strategic insights, identify emerging opportunities, and mitigate risks specific to their respective jurisdictions.

Where the size, importance or complexity of subsidiary operations, or local legal governance requirements require it (for example the requirement in certain jurisdictions for the board of directors of a subsidiary to act in line with their duty to the subsidiary as a primary requirement), the Aros Group will strive to create an independent balance on the board of directors in a subsidiary, by including a

balanced combination of executive members from Aros and locally appointed individuals, as board members.

## **9 CHIEF EXECUTIVE OFFICER**

The CEO is appointed by the Board and is responsible for leading the day-to-day operations of the Aros Group. The CEO shall govern the business in accordance with relevant external regulations, the CEO's instructions adopted by the Board and other policies adopted by the Board.

The CEO is responsible for ensuring that sound and robust procedures and processes are in place to manage and control the Aros Group. The CEO's duties are specified in the CEO instruction as adopted by the Board.

### **9.1 WORKING-GROUPS SUBORDINATE TO THE CEO**

In view of the Aros Group's operations and complexity, the CEO has established a number of Group-wide working-groups with specific assignments. The purpose of the working-groups is to achieve a good coordination of the Aros Group's operations and to make it easier for the CEO to implement the Board's directives.

#### **9.1.1 EXECUTIVE MANAGEMENT**

The CEO has established an Executive management to manage the Aros Group in an effective manner. The Executive management acts as a valuable part of the Aros Group, with the main purpose to provide the CEO with certain expertise and support.

Through the Executive management, the CEO coordinates the operations and informs about the business and monitors its operation and risk management. The Executive management shall therefore carry out and manage activities in a manner that is consistent with the business strategy, risk appetite, remuneration and other policies approved by the Board.

#### **9.1.2 AROS' CREDIT COMMITTEE**

Aros' Credit Committee supports the Group Chief Credit Officer by making decisions relating to major loans, conflict of interest regarding credit decisions to a disqualified person, deferrals and similar decisions in accordance with the applicable credit policy. There are internal rules regarding the composition, meeting structure and agenda of Aros' Credit Committee.

#### **9.1.3 RESERVATION COMMITTEE**

Aros' Reservation Committee's task is to establish loan loss provisions at least monthly and decide on special provisions, determine at least monthly Aros' macro index, approve the revision and validation of risk classification methods as well as approve revision and validation of expected credit loss models. There are internal rules regarding the composition, meeting structure and agenda of Aros' Reservation Committee.

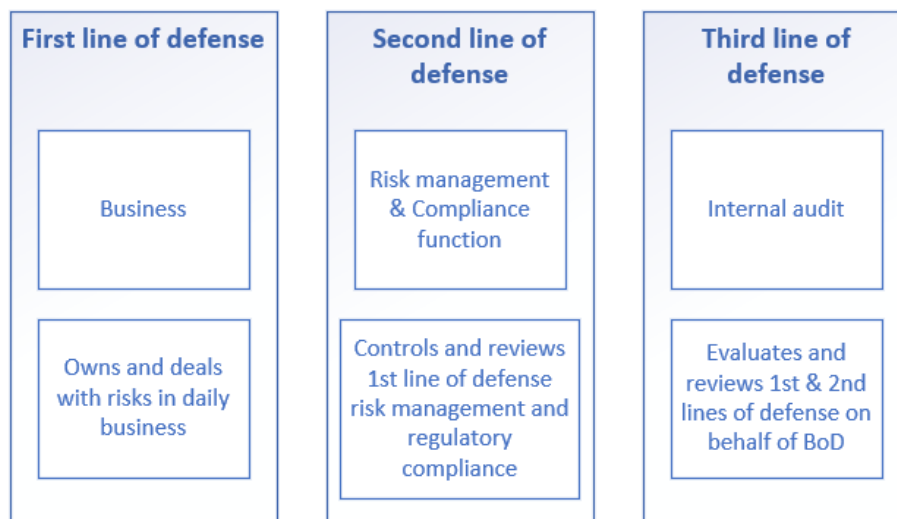
## **10 FRAMEWORK FOR INTERNAL CONTROL AND RISK MANAGEMENT**

The framework consists of the Aros Group's strategies, processes, procedures, limits, controls and reporting procedures. The framework enables operations to be conducted efficiently and in accordance with applicable external regulations, and for relevant risks to be identified, measured and controlled.

Internal control is based on the following main components: control environment, risk assessment, control activities, information and communication, and monitoring.

## 10.1 LINES OF DEFENSE

In order to ensure that risk-taking and risk management are carried out in accordance with the Aros Group's framework for internal control and risk management, operations are divided according to the external requirements of three lines of defense.



### 10.2 FIRST LINE OF DEFENSE

The first line of defense is the operational activities of the Aros Group. The first line of defense is responsible for implementing the internal regulations and regularly managing and reporting risks within its area of operation. It is also this line of defense who, when conducting business, owns and deals with the risks on a daily basis.

### 10.3 SECOND LINE OF DEFENSE

The second line of defense consists of the Risk Control Function, the Compliance Function, Central funktionsansvarig ("CFA") and Data Protection Officer ("DPO"), and they shall be centralized within the group. Those responsible for the control functions shall comply with applicable external and internal rules, and the specific instructions given by the CEO and the Board. The control functions are appointed by the Board and reports to both the Board and the CEO.

### 10.4 THIRD LINE OF DEFENSE

Aros has an Internal Audit Function and a responsible internal auditor. The responsible internal auditor reports to the Board and is appointed by the Board. The Internal Audit Function complies with applicable internal rules and the specific instructions given by the Board.

## 10.5 RISK FRAMEWORK, RISK STRATEGY AND RISK CULTURE

### 10.5.1 RISK FRAMEWORK

Regardless of legal affiliation and operations, the Aros Group applies a uniform risk framework. The risk framework covers the different types of risks that the Aros Group is, or may be, exposed to.

The risk framework and the risk culture, including any responsibility in regard to these two aspects, are documented. In order to be effective, the risk governance framework requires robust communication within the Aros Group about risk, including both communication across the organization and through reporting to the Board and the CEO.

#### 10.5.2 RISK STRATEGY

There is a documented risk strategy that is implemented throughout the Aros Group. The risk strategy, including the risk management practices and policies, has been developed with the aim to identify, assess and mitigate any risks that the Aros Group is or may be exposed to. Risks should be identified and monitored, as well as mitigated, on an ongoing and Aros-wide and individual basis.

The strategy is based on the business plan and ensures that there is capacity to meet the losses that may arise, primarily with ongoing earnings and secondarily through the utilization of Aros' capital base. The strategy takes into account all significant risks and is subject to ongoing evaluation.

#### 10.5.3 INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT

Aros analyzes and assesses the organization's overall risk exposure and ensures that the business has sufficient capital in relation to its identified risks and meets external and internal liquidity and capital needs.

The minimum capital requirement is ensured by the business continuously evaluating liquidity and capital needs. Aros performs at least one annual, and more often if necessary, ICAAP. The ICAAP consists of a comprehensive assessment of the risks of the business and the capital requirements for these, with an associated liquidity assessment.

The evaluation results in detailed reports of the capital situation, including a description of the Aros Group's current risk profile and the risk profile for at least three years ahead. The assumptions and conclusions presented in the ICAAP are tested on an ongoing basis through various types of stress tests.

The purpose of the stress test is to assess how the risks are affected in different scenarios and are then used to assess how the results affect the Aros Group's capital and liquidity needs.

#### 10.5.4 RISK CULTURE

Professional values, attitudes and behaviors have a decisive impact on how the Aros Group manages its risks. The Aros Group shall therefore have documented and sound risk culture that permeates the entire business.

The Board and Executive management shall lead by example. Open and constructive dialogue is encouraged, where decisions and remuneration systems are in line with the Aros Group's long-term goals.

All staff in the Aros Group shall have the skills required for their respective roles, shall be informed about the risk culture and shall be aware that each individual is held accountable for their actions when it comes to the risk-taking of the business. The CEO, Executive management and other managers are responsible for creating and maintaining relevant mandates for those roles that have responsibilities to create and maintain business within the Aros Group.