RISK MANAGEMENT AND CAPITAL REQUIREMENTS 2019

Allfunds Sweden AB

(previously known as Nasdaq Broker Services AB)

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1 DISCLOSURE REGARDING RISK MANAGEMENT AT ALLFUNDS SWEDEN AB IN 2019

Allfunds Sweden AB (the "Company" or "AFS"), Swedish Company Registration no. 556405-0127, is a securities company under the supervision of the Swedish Financial Supervisory Authority. AFS is a wholly owned subsidiary of Allfunds Bank S.A.U. and is part of Allfunds Bank Group with its parent company in Spain.

On the 24 March 2019 an agreement was reached to sell 100 % of the shares of the company to Allfunds Bank S.A.U. The deal was closed on the 31 October 2019 after receiving regulatory approval from Finansinspektionen. Subsequently, the Company changed its name from Nasdaq Broker Services AB to Allfunds Sweden AB.

Additionally, AFS's business has been greatly simplified with the carve out of two of the three business lines from the Company prior to the acquisition by AFB: the Core Back Office business and the Regulatory Reporting business were carved out to other Nasdaq companies. The result is that only one business line remained in the Company, making its operations significantly less complex and decreasing the capital requirements. Thus, from 31 October 2019, the Company has solely focused on services in fund trading through the Nordic Fund Markets business line which is subject to the supervision of the Swedish Financial Supervisory Authority. AFS offers services within fund administration, distributing shares in mutual funds ("Fund Shares") on behalf of Fund Providers (FPs) via a technical platform for distribution, execution and administration of Fund Shares (the "Distribution"). AFS is a B2B platform which means that AFS is not in direct contact with the end-customers. Instead, this part is provided to various Fund Distributors (FDs) who in turn also use AFS´s platform for execution and administration of Fund Shares. All FDs are licensed and supervised by the FSA. Therefore, all regulatory requirements, such as inter alia AML requirements, is a requirement for the FDs by the nature of their licenses. Fund Shares are not generally traded on a regulated market, multilateral trading facility (MTF) or organised trading facilities (OTF), but directly with the FPs of the Fund Shares or appointed agents. The service connects FDs and FPs. AFS's clients and the FDs, get access to a broad choice of mutual funds through one counterparty. This helps them to reduce risk and streamline their operational processes regarding their trading on mutual funds.

The purpose of this publication is to provide information regarding Allfunds Sweden AB' risks, risk management and capital requirements under the Capital Requirements Regulation (CRR) (EU) no. 575/2013. This information is published on the Allfunds Bank Group's website at: https://allfunds.com/en/allfunds-sweden-ab-governance/

2 ALLFUNDS SWEDEN AB'S AUTHORISATIONS AND REGULATORY LICENSES

The Company holds:

- authorization pursuant to Chapter 2, section 1, paragraph 1, subsection 1 of the Securities Market Act for the receipt and transmission of orders;
- authorization pursuant to Chapter 2, section 1, paragraph 1, subsection 2 of the Securities Market Act for the execution of orders on behalf of customers;
- ancillary authorization pursuant to Chapter 2, section 2, first paragraph, subsection 4 of the Securities Market Act to perform currency services:
- authorization pursuant to Chapter 4, section 12 of the Investment Funds Act for registration as a nominee holder of Fund Shares;
- authorization pursuant to Chapter 5, section 4 of the Securities Market Act, for cross-border operations, to "hold in custody financial instruments on behalf of customers and accept funds subject to a reporting obligation";
- ancillary authorization pursuant to Chapter 2, section 2, first paragraph, subsection 1 of the Securities Market Act to hold in custody financial instruments on behalf of customers and accept funds subject to a reporting obligation;
- ancillary operations pursuant to Chapter 2, section 3, first paragraph of the Securities Market Act with respect to the IT services /IT operations.

3 SUMMARY

AFS employs an Enterprise Risk Management (ERM) approach that manages risk within an approved risk appetite. Risk governance includes an overarching risk appetite statement to guide risk-taking decisions, committees designed to oversee risks, and ERM policies and procedures that document core risk management principles. The ERM Framework incorporates the Three Lines of Defense model to manage risks.

AFS' operations are characterized by a low risk profile since the company neither conducts lending operations nor proprietary trading. The company's risk strategy is that risk-taking is carried out at a low level in accordance with the approved risk appetite and balanced with the commercial and financial targets for growth and return as well as being in compliance with external and internal regulations governing the capital base.

Set forth below are descriptions of how the company has been organized with respect to its risk and control functions in order to actively minimize the risks it faces. The Company is primarily exposed in its operations to operational risks and strategic and business risk.

4 INTERNAL CONTROL GOVERNANCE

As a part of the Allfunds Bank Group, and as a regulated investment firm, AFS has the documentation, agreements and policies demanded to guarantee the correct internal control mechanisms, transparent and consistent lines of responsibility, and sound administrative procedures.

The governance arrangements, which enable identification and mitigation of possible conflicts of interests, include the separation of the control functions from management. Hence, the ERM Risk function, the Compliance function and Internal Audit work independently from the business line, and report directly to the Board of directors of the Company.

5 RISK MANAGEMENT GOVERNANCE AND RISK ORGANIZATION

The entity adheres to the Allfunds Bank Group's Corporate Governance of Risks, which is appropriate to the nature of the activity it develops, and which is adapted to international recommendations and trends, through a structure based on the three lines of defense that ensure the non-existence of conflicts of interest:

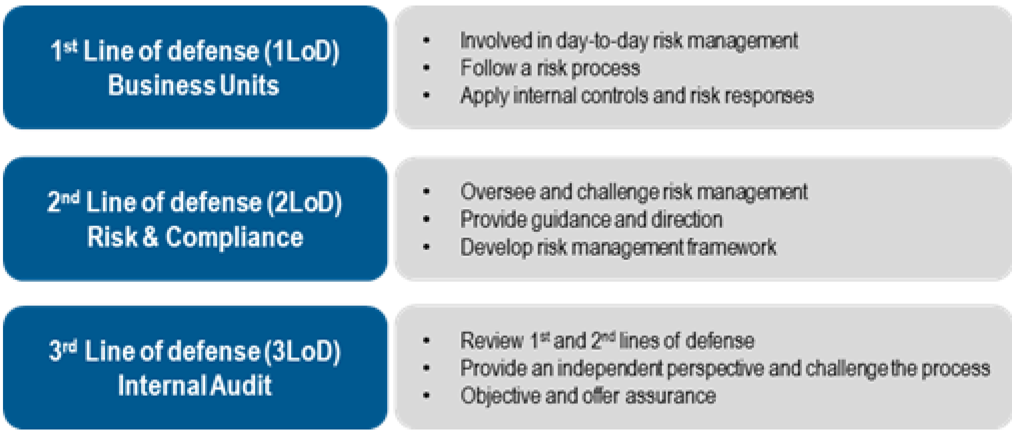

Figure 1: Three lines of defense

- According to this model, the first line of defense is formed by the different business and support departments in charge of the relationship with clients/fund houses and support functions. The first line of defense implements and manages the risk tools or first level controls in order to identify potential risks and ensure an effective answer to mitigate them. Thus, the role of the first line is to manage and control risks at a first instance.
- The second line of defense is formed by the Compliance and Risk Management teams, acting autonomously and independently between them and with respect to the first line of defense. These two units support the first line of defense in providing guidelines to manage and control risks and supervising and challenging, when appropriate, the approaches of the 1LoD. That is to say, they set and monitor

compliance with the rules and limits needed to stay within the risk appetite defined by the Board of directors.

- Finally, the third line of defense is represented by the Internal Audit function, which has the maximum level of independence and objectivity within the entity and ensures the effectiveness of the control systems. At the same time, it carries out an independent review of the first two lines of defense and verifies there is compliance with the model, providing assurance to the Audit & Risk Committee on the effectiveness of risk management.

5.1 ERM RISK FUNCTION

There is an independently established ERM Risk function to assist the Board of directors with risk controls. The ERM Risk function is outsourced to the Group's central Risk unit which is independent from the business, provides independent advice and guidance to the First Line of Defence in regards to the risk management and reports directly to the Board of directors.

The ERM Risk Officer is responsible for ensuring implementation of the defined risk frameworks as approved by the Board as well as risk standards, guidelines and procedures. The ERM Risk Officer facilitates identification, assessment, monitoring, and measurement of risks related to the company, coordinating risk management activities and reporting, provides the Board of directors and management an aggregated view of their risks.

The ERM Risk Officer represents company's risk topics to the relevant regulators, as required.

5.2 COMPLIANCE OFFICER

There is an independant Compliance funcion to advice and support the Board of directors. For this purpose, an expert contractor has been appointed as Compliance Officer and AML/CFT Officer for AFS, as 2nd line of defence.

The compliance officer shall ensure the implementation of the compliance framework and monitor whether business activities are being conducted in accordance with applicable legislation, regulations, internal rules and generally accepted practices.

The Compliance officer asumes also the funcion of Independent Appointed Officer for controlling and reporting AML/CFT obligations (Second Line AML Officer). The appointed officer monitors the fulfilment of the AML/CFT framework and is reponsible for submiting an annual AML report to the Swedish FSA and reporting the suspected transactions to the Swedish Police.

The Appointed Officer for Compliance and AML/CFT functions reports directly to the Board of directors and to the company's CEO. He also reports periodically to the Global Head of Compliance of the Allfunds Group on the development of his activities.

In addition, the Global Allfunds Group Data Protection Officer (member of the Group Compliance Department team) has been appointed as local DPO.

5.3 CHIEF INFORMATION SECURITY OFFICER (CISO)

The CISO function is outsourced to the Group's central IT unit, being responsible for overseeing the outsourced services when it relates to Cybersecurity, monitoring and reporting cyber risks to management and the board.

5.4 INTERNAL AUDIT

There is also an independently established internal audit department to assist the Board of directors with risk controls. The internal audit department is outsourced to the Group's central Internal Audit unit which carries out regular follow-ups and controls which are reported to the board of directors.

The objective of AIA is to provide independent, reliable, valued, insightful and timely assurance to the Board of directors and Executive Management Team over the effectiveness of governance, risk management and control over current and evolving risks.

6 RISKS IN THE BUSINESS

In accordance with IFRS 7 and the Capital Adequacy Directive, AFS reports on the following risks: liquidity risk, credit risk, market risk, interest rate risk and currency risk. The company's risks in the operations are also published on the company's website.

AFS's ERM Risk Officer monitors and follows up the risks that arise in the business. The risk control function's work is based on the so-called Pillar I, II and III risks to ensure that the capital adequacy requirements are met:

- *Pillar I* describes the minimum capital requirements for credit risk, market risk and operational risk.
- *Pillar II* covers internal assessment of Pillar I risks and assessment of all other risks that are not covered by Pilar I requirements including business & strategic risk, interest rate risk, concentration risk, etc.
- *Pillar III* sets up the requirements for the disclosure of capital adequacy and risk management.

The different risks, that the company is exposed to, are specified below. More detailed information and key figures for the various risks, can be found on the Company's Annual Report published on Allfunds Bank Group's website.

7 RISK PILLARS

7.1 CAPITAL ADEQUACY REQUIREMENTS FOR THE COMPANY

CRR and the Swedish Financial Supervisory Authority’s regulations and general recommendations (FFFS 2014:12) regarding supervisory requirements and capital buffers govern the establishment of the company’s statutory capital requirements. The rules entail that the company’s capital base (shareholders’ equity) must cover, with a margin, the prescribed minimum capital requirements, which includes the capital requirements for credit risks, market risks and operating risks. The rules also cover capital requirements for additional risks identified in the operations in accordance with the company’s capital and liquidity adequacy assessment process. In August 2014, new rules regarding buffer requirements were introduced prescribing that credit institutions and securities companies must hold the capital required to handle losses during difficult economic times, commonly referred to as capital conservation buffers.

The Company calculates the capital requirements under Article 95 (EU no. 575/2013) as a result of the company having a limited authorization to provide security services. The capital requirements are based on the higher of the following requirements:

- The capital base requirement for credit and market risks.
- The capital base requirement for fixed overhead costs.

The company has so far calculated the risk-weighted exposure amount based on fixed overhead costs in accordance with Article 97 (EU no. 575/2013) as this has been the greater.

The following methods are used for the calculation of the statutory capital base requirement:

- For credit risk: the standardized approach according to article 107.1 in CRR.
- For market risk (exchange rate risk): the standardized approach according to article 351 in CRR.
- For operating risk: cost risk method (25% of the fixed overheads/costs of the preceding year).

The capital requirement for market risk is equal to 8% of the market risk-weighted exposure amount. Capital requirements for operational risk based on fixed overheads are calculated as 25% of the fixed overheads of the preceding year. Risk-weighted exposure amount is calculated as the capital requirement divided by 8 %, or alternatively multiplied by 12.5.

In addition to this, the company must hold 2.5% of the total risk-weighted exposure amount in the capital conservation buffer. The company carries out regular controls to ensure that these minimum requirements are fulfilled by reporting the information regarding capital base and statutory requirements to the Board of directors. As at 31 December 2019, CET1 Capital Ratio is 105,25%, compared to the minimum requirement including Capital Conservation Buffer of 13,10%. The internal minimum requirement is 15,44% including internal buffer.

7.2 PILLAR I RISKS

7.2.1 CREDIT RISK

The credit risk is the risk that a counterparty in a transaction will not perform its obligations. The types of credit risks can be divided into concentration risk and counterparty risk. As at December 31 2019 total capital demand for credit risk was 1.76 million SEK.

In handling the concentration risk, the major exposures are reported regularly. The concentration risk is stress tested and compared with the current capital requirement for credit risks. In order to minimize the Company's counterparty risk, the company uses a proven credit assessment model. In the opinion of the company the credit quality of financial assets, which are neither due nor payable nor written down, are good. In addition to this, a requirement regarding the concentration risk is taken into consideration in the Pillar II risk assessment. Capital demand for concentration risk was 0.4 million SEK as at the end of 2019.

For credit rated exposures to institutions and corporates credit ratings from Standard & Poor's are used. If no S&P's rating is available then Moody's will be used to determine credit quality.

7.2.2 MARKET RISK/CURRENCY RATE RISK

The market risk is related to how a market, as a whole, reacts to various events, such as changes in interest rates, inflation, tax legislation, the political climate, etc. The Company's management regards this risk as very small.

The currency rate risk is the risk that fluctuations in the currency rate will affect the company's cash flow when exchange rates change. This is calculated on a quarterly basis and published on the company's website in conjunction with the quarterly reporting. As at December 2019 the capital demand for market risk (currency risk) was 0.4 million SEK.

7.2.3 OPERATIONAL RISKS

Operational risks are risk arising from the company's people, processes, and systems and external causes. The Company employes the Group's ERM Risk Policy and ERM frameworks to manage operational risks. Through risk identification, assessment, monitoring, and measurement, it identifies issues, existing control deficiencies, or unaddressed contributory factors that require management attention.

Capital requirements for operational risk, for an investment firm such as Allfunds Sweden AB that provide certain investment services and activities, are based on fixed overheads according to article 97.1 of the CRR and as at the end of December 2019 the capital demand for operational risk was 4.63 million SEK.

7.3 PILLAR II RISKS

7.3.1 STRATEGIC AND BUSINESS/EARNINGS RISK

Risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. Business & strategic risk for the Company is retrieved from its latest scenario assessment in the ICLAAP.

7.3.2 CONCENTRATION RISK

Swedish FSA's method (FI Ref. 14-14414) using a Herfindahl-index. The calculation deals with concentration risk in respect of concentration to individual counterparties (single-name concentration), concentration to individual industries (industry concentration) and concentration to individual countries or regions (geographical concentration). The credit risks' spread for the various geographic exposure classes are distributed over Sweden, Finland, Denmark, Norway, UK, Germany, Belgium, Spain, Netherlands, Italy and Estonia.

As stated above, the total capital requirement for credit related concentration risk is estimated with FI's method to 387 thousand SEK and hence AFS allocates 387 thousand SEK for credit related concentration risk in Pillar II.

7.3.3 INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book (IRRBB) is calculated in accordance with the Swedish FSA's method (FI Ref. 14-14414) using economic value. The method for assessing IRRBB is calculated by simulating an increase or decrease of the interest rate by 200 points. According to these calculations, the interest rate risk at 31st December, 2019 amounted to -6,000 SEK upon an increase or 6,000 SEK upon a decrease in relation to the company's capital base, which is SEK 60,941,000 (85,922,000), is -0.01% (-1.30%) and +0.01% (1.37%), respectively.

After the carve out of two of its business lines and the incorporation into the Allfunds Bank Group, Allfunds Sweden AB has remained with a very limited interest-rate risk. Due to the simplicity of its balance sheet, with a very liquid structure and almost fully matched in terms of maturities and currencies between assets and liabilities, it can be stated that increases in interest rates will not have a relevant impact on the company. On the same way a decrease in interest rates will not have a relative negative impact on the company. The sensitivity to interest rates is so small that it will always be around 0 SEK .

7.4 PILLAR III

With the introduction of the new CRR regulations, securities companies are subject to stricter transparency requirements through the publication of capital coverage and risk management information. As a result, on a quarterly basis the Company publishes information regarding the capital base and risk-weighted exposures and assesses capital requirements internally. Information is also published on the website on a quarterly basis regarding the company's financial situation and liquidity status. The quarterly publication of financial information on the website normally takes place two months after the expiration of the reporting period. Annual information is also published on the Allfunds Bank Group’s website regarding the company’s management and governance and remuneration paid by the company. Through this document containing information regarding the Company’s risk management which is published annually, the publication requirements under the new CRR regulations are therefore fulfilled.

The implementation directive (EU) 1423/2013 contains standardized forms which the Company publishes on its website.

8 LIQUIDITY RISK

The Company monitors and meets future liquidity needs in normal daily management, both in temporary and extended crisis situations. The Company’s liquidity risk management aim at having prompt access to sufficient liquidity.

The Company’s liquidity is managed by the local Finance department with the support of the global Finance unit at the parent company.

The Company’s liquidity decisions shall be cost-based, founded on an assessment of liquidity in the operations, be forward looking and aligned with strategic and business planning. Liquidity risks shall be minimized through documented processes/routine descriptions and policy documents, identification/determination of risk measurements, key figures and limits, follow-up and reporting thereof.

The CEO follows and regularly reports the Company's management of liquidity risks, liquidity position and liquidity development to the Board. The Company’s executive management ensures that the management of liquidity risks is in accordance with the risk tolerance. Risk tolerance is set by the Board of directors.

Identification of liquidity risks is included in the liquidity stress testing conducted at least annually.

AFS shall always maintain a liquidity reserve corresponding to three month’s average budgeted amounts for operating expenses. AFS liquidity decisions shall be cost-based, founded on an assessment of liquidity in the operations and forward looking, aligned with strategic and business planning. AFS has identified the following risks, which are closely related to liquidity risk:

- An unexpected decrease in the operations, i.e. decreasing cash flow.
- Significant operational incidents.

8.1 STRESS TESTS FOR LIQUIDITY

On at least an annual basis, the Company must carry out stress tests for liquidity and report the results of these tests to the Board of directors. The stress tests are to be calculated on the basis of the cash flow which is anticipated to arise when the total assets, liabilities and memorandum items are realized.

In order to assess the liquidity need, AFS assumes a situation with severe liquidity stress. Operating income is assumed to stop completely after 3 months, operating expenses are assumed to create monthly liquidity outflows corresponding to 1/12 of the total annual operating expenses. AFS liquidity reserve consists of deposits at credit institutions and are immediately available. Other financial liabilities are assumed to create an outflow of the full amount the first month in a severe liquidity stress. Other assets that consist of loans and advances to customers are assumed to create inflows corresponding to 1/3 each month in the first three months. Thus, the Company calculates the net cash flow for different horizons using the total anticipated cash outflow less the total anticipated cash inflow. All of these horizons are accumulated in order to illustrate how long the company would have a positive cash flow.

Under these conditions, the stress test checks that the liquidity reserve is sufficient to cover at least for the accumulated net flows of the following three months without additional liquidity being provided.

8.2 LIQUIDITY REPORTING

The Company reports information to the Board of directors on a quarterly basis regarding what the liquidity reserves and outstanding liabilities consist of, and their liquidity quotient. The information is also published on the company's website.

8.3 LIQUIDITY PREPAREDNESS PLAN

The purpose of the Liquidity Continuity Plan ("LCP") is to establish certain prerequisites that will allow the Company to be organized and act in a systematic way, and to clarify the intentions regarding how they should deal with liquidity crisis. A liquidity crisis is defined as a situation where the size of the liquidity reserve is below the minimum limit (three months of operating expenses). A severe liquidity crisis is defined as a situation where the Company as a result of its liquidity shortage cannot fulfil at least one payment obligation.

The liquidity creating measures consist of:

- Withdraw cash
    - Cash held with correspondent banks in applicable currencies which are possible to withdraw with the same value date.
- Capital injection from parent company

- If a capital injection is required, ERM Risk Officer will inform the CEO, who in turn will inform the Board of directors that will decide if a capital injection from the parent company is an option.

In the case of a liquidity crisis, the CEO, ERM Risk Officer and the Board of directors shall all be informed immediately. The Finance function shall exercise the liquidity creating measures, based in the order that is operationally most efficient, to restore the size of the liquidity reserve to above the minimum limit. The CEO, ERM Risk Officer and the Board of directors shall be kept informed continuously about the status of the liquidity reserve during the liquidity crisis. In the case of a severe liquidity crisis, all of them plus the parent's company Board of directors shall be informed without delay. All of them shall be kept informed continuously about the status of the liquidity reserve during the severe liquidity crisis.

The liquidity contingency plan shall be tested at least once a year by the ERM Risk Officer, not including the liquidity creating measure of capital injection from the parent company. This includes at least testing that the liquidity creating measures are working properly by exercising them.

9 INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS, ICLAAP

In order to ensure that the risks have been correctly taken into consideration and that they reflect the company's actual risk profile and capital requirements, on an annual basis, or where necessary, an internal capital and liquidity adequacy assessment process is carried out (ICLAAP). An estimate is made in this assessment of forecasted outcomes for financial status, capital base and capital requirements for the various risks in a normal and in a stressed situation for a number of years going forward. In addition to the risks included in the capital adequacy requirements, other identified risks in the operations are analyzed, such as business/earnings risk, strategic risk, and reputation risk as described further above. Following the implementation of the CRR rules, the assessment also includes estimates regarding current and future liquidity needs. The ERM Risk Officer, in cooperation with the Finance department, is responsible for the ICLAAP assessment and controls. After the annual ICLAAP work has been completed, the Board of Directors receives training and information regarding the company's ICLAAP and financial situation. In conjunction with this, training is also provided regarding the directors' responsibilities and general risks encountered by securities companies.

10 RISK REPORTING

ERM Risk report is comprised of risk appetite status, risk profile, risk register, outcomes of RCSA and Top risk assessment and risk incidents, and presented to the Group's Risk Committee and the Board of directors by ERM Risk Officer every quarter.

Reporting of events of material significance to the Swedish Financial Supervisory Authority are carried out in accordance with the internal instruction of reporing such events.

11 PUBLICATIONS AND REFERENCES

In accordance with the Swedish Financial Supervisory Authority's regulations regarding supervisory requirements and capital buffers (FFFS 2014:12), the company publishes parts of the information that must be provided under Articles 435 – 455 (EU) no. 575/2013 in the form of references to equivalent information. The information that is provided in the form of references, and where this information may be found, is reported in the summary below.

The information which the company is obligated to publish under Articles 437 - 438 (EU) no. 575/2013 regarding capital base, capital requirements and capital buffers is found in the following documents:

- Allfunds Sweden AB Annual Report for the financial year 1 January 2019 to 31 December 2019.
- Own Funds, Capital Requirements and Liquidity Reserve.

The information which the company is obligated to publish under Article 450 (EU) no. 575/2013 regarding remuneration policy is found in the following documents:

- Report regarding remuneration policy for Allfunds Sweden AB according to FFFS 2011:1, 2014:22, 2014:12, 2016:25 and (EU) no. 575/2013.
  Remuneration Policy.

The information which the company is obligated to publish under Article 435 (EU) no. 575/2013 regarding risk management and corporate governance is found, in addition to this document, in the following documents:

- Allfunds Sweden AB Annual Report for the financial year 1 January 2019 to December 31 2019.
- Corporate Governance.
- Board Members

All of the above-stated documents are published on Allfunds Bank Groups' website at:

https://allfunds.com/en/allfunds-sweden-ab-governance/

12 EXPLANATION OF RISK

Since the Company specializes in back office operations and associated ancillary services and does not carry out any proprietary trading or lending operations, the company's credit risk is small. According to the company's internal regulations, the risk appetite and risk tolerance are low. The board of directors has decided that the company's goal is to regularly maintain core primary capital according to the external requirements set forth in CRR with an extra internal margin. The company has a strategy to maintain sufficient liquidity reserves of good quality which fulfill the internal requirements contained in the Treasury Policy, corresponding to 3 months budgeted amounts for operating costs. Losses as a consequence of transactional errors in the operations are followed up and reported continuously to the Board of Directors and must not exceed an internally established percentage of the company's turnover.

The Company has by good margin exceeded the external and internal requirements regarding risk and capital coverage in 2019. The company's risk profile during the year corresponds well to the risk tolerance established by the Board of Directors.

13 DECLARATION OF RISK

Allfunds Sweden AB's Board of directors concludes that the company's risk management is being handled satisfactorily and affirms that the arrangements made for risk management and risk controls which have been implemented are appropriate in relation to the Company's business model, profile and strategy.

The Board of directors of Allfunds Sweden AB.

Stockholm, 17 September 2020.