



## **RISK MANAGEMENT POLICY** **OF CORPORACIÓN FINANCIERA ALBA, S.A.<sup>1</sup>**

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### **Introduction. Risk management objectives and policies**

The Board of Directors of Corporación Financiera Alba, S.A. enjoys, as it is a listed company, exclusive powers to determine the risk management and control policy, including tax risks, and the supervision of internal information and control systems (Article 2.2.b of the Regulation of the Board of Directors, approved by the Board of Directors at its meeting held on 24 April 2007, and most recently modified on 3 May 2016).

In fulfilment of the above, the Board of Directors of Corporación Financiera Alba, S.A. formulates the following Risk Management and Control Policy for Corporación Financiera Alba, S.A. and its dependent companies (hereinafter, "Corporación Financiera Alba", or the "Company").

### **1. Purpose**

The aim of the Risk Management and Control Policy of the Company comprises the establishment of the basic principles, guidelines and general operational framework for the control and management of the different types of (financial and non-financial) risk faced by Corporación Financiera Alba.

### **2. Scope**

This Risk Management and Control Policy applies to Corporación Financiera Alba.

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<sup>1</sup> Approved by the Board of Directors at its meeting held on 17 June 2019.

This Policy replaces that approved by the Board of Directors at its meeting held on 26 October 2015.

### 3. Types of risk faced by the Company

Risk is an inherent element in any business activity, and is defined as the uncertainty that an event or action might occur with an adverse impact on the ability of the Company to maximise its value for its stakeholders and to achieve its objectives. It thus represents the possibility that threats might materialise, and that opportunities might not be achieved.

Corporación Financiera Alba is engaged in two main types of activity:

- (i) stakes in the capital stock of listed and non-listed companies, and
- (ii) investment in real estate for office rental.

As a consequence of its activity, the markets and the sectors where it operates, and the surrounding context, the Company is exposed to the following categories of risk, both financial and non-financial:

- Strategic risks, connected with the mission and vision of the Company, the achievement of business objectives and the creation and preservation of value for shareholders and other stakeholders.

These include risks regarding the corporate governance of the Company, its reputation and responsibility, investment and divestment strategies, and market dynamics.

- Operational risks, with regard to potential direct or indirect economic losses caused by external events: uncertainty in business operations themselves; or internal events: because of failures and inadequacies in the Company's processes, systems or resources.

This essentially includes risks that are mainly connected with income, investments and divestments and the monitoring thereof, the acquisition of goods and services, physical assets, human resources, information technologies and natural disasters, terrorism and other criminal acts.

- Financial risks derived, in a broad sense, from any financing operation that the Company might need to perform in order to execute its operations, and the reliability of the financial information issued by it.

These include liquidity and credit, market, tax and accounting and reporting risks.

- Regulatory compliance risks, resulting from a potential breach of laws, regulations, internal standards and codes of conduct, in addition to increased exposure to them.

This includes legal risks, regulatory risks and risks connected with codes of ethics and conduct.

- Technological, environmental and social risks, including those risks associated to the information technologies, cybersecurity and technological obsolescence, climate change and those related to the health and safety of workers.

#### **4. Integrated Risk Management System.**

Aware of the importance and the benefits of applying adequate and efficient management of its risks, Corporación Financiera Alba has defined an Integrated Risk Management System essentially focused on the following:

- Allow the identification and proactive and efficient evaluation of risks at the Company level, and the constant monitoring and follow-up thereof.
- Integrate, coordinate and direct the various efforts being made by the Company in the field of risk management to identify, assess, prevent and control of risks and significant impacts.
- Allow responsible risk acceptance to be obtained, and underpin the responsibility of Company employees.
- Ensure that the control systems are aligned with the real risks facing the Company.
- Facilitate and streamline the application of corrective measures.

The Integrated Risk Management System takes the form of a combination of three key elements:

- (i) The continuous Risk Management process, understood as those activities performed by all persons at the Company (under the supervision of the Audit and Compliance Committee), focused on identifying those potential risk events that could affect it, managing the risks identified, and providing reasonable certainty as to the achievement of the Company's objectives.
- (ii) An organisational focus with clearly defined and communicated roles and responsibilities. Integrated risk management affects all personnel of the Company, and therefore necessarily requires the definition of an organisational risk management focus tailored to its organisational structure and corporate culture.

Although the Integrated Risk Management System affects and involves all personnel of the Company, the key participants are as follows: the risk supervisors, the Risk Management and Control Unit, the Audit and Compliance Committee and the Board of Directors.

- (iii) A monitoring model which defines and provides necessary and timely information to allow all participants in the risk management process to reach informed decisions with regard to the risks.

##### **4.1. The Continuous Risk Management Process.**

In summary, the continuous risk management process covers the execution of the following activities:

- Identify and evaluate those risks that could affect the Company.

Determine the main strategic, operational, financial and regulatory compliance risks that affect the strategy and objectives of the Company, evaluate the likelihood of occurrence and their potential impact, and prioritise them accordingly.

- Establish the level of risk deemed to be acceptable.

Key Risk Indicators (KRIs) are defined for each critical risk, and the corresponding tolerances are established.

- Identification of controls.

Specify the existing controls (or those to be implemented) at the Company to mitigate the risks that have been identified, including the development of policies and due diligences for risk prevention and management.

- Identification of those processes in which these risks and controls occur.

Determine the existing relationship between the Company's key risks (and its controls) and the corresponding processes, identifying and analysing those processes that are critical for risk management.

- Evaluation of controls.

Evaluate the efficacy of the controls in the mitigation of the risks identified.

- Design and implementation of action plans in response to risks.

Determine the action plans to be undertaken in order to reduce the residual risk to the acceptable risk level, taking into account the costs and benefits of said actions. As a direct consequence of this reduction of the level of risk, the risks should and must then be re-evaluated and prioritised, in the form of a continuous risk management process.

In this regard, Corporación Financiera Alba has drawn up the Company's Risk Map, representing the key risks in the categories listed above, on the basis of their impact and likelihood. In order for this risk map to be effectively configured as a management tool allowing the company to reach informed decisions, it is periodically reviewed and updated to adapt it to the Company's current situation.

The Company has likewise defined the Risk Datasheets for the most critical risks, identifying the key risk indicators (with their corresponding tolerances), the associate controls and, where applicable, the action plans to be implemented. These Datasheets allow the Company to perform evaluation and monitoring of its risks, and to determine the most appropriate response to them, being reviewed and updated periodically

#### **4.2. Organisational Model of roles and responsibilities.**

Although the Integrated Risk Management System affects and involves all personnel of the Company, the key actors are as follows:

(i) Risk supervisors:

They are responsible for monitoring the risks assigned to them and for reporting any relevant information in this regard to the Risk Management and Control Unit.

(ii) Risk Management and Control Unit.

The Risk Management and Control Unit is under the direct supervision of the Audit Committee, and is specifically attributed the following functions:

- Ensure the proper functioning of the risk management and control systems, and in particular proper identification, management and quantification of all major risks affecting the Company.
- Actively participate in the generation of the risk strategy and in important decisions regarding management thereof.
- Ensure that the risk control and management systems properly mitigate risks within the context of the policy defined by the Board of Directors.

(iii) Audit and Compliance Committee.

In accordance with the terms established in the Regulation of the Board of Directors of the Company and its own Regulation, it supervises, among other aspects, the efficacy of the Company's internal control, and the risk management systems.

It will also discuss with the Accounts Auditor any significant weaknesses in the internal control system detected over the course of the audit.

(iv) Board of Directors.

As indicated above, it enjoys exclusive powers to determine the risk management and control policy, including tax risks, and the supervision of the internal information and control systems.

With regard to risk management processes, it should be highlighted that, aside from the aforementioned Risk Management and Control Unit, Corporación Financiera Alba has Regulatory Compliance processes in place, housed at the different operational and support areas, in addition to an Internal Audit Service, defined as the advisory and control body at the service of the Audit and Compliance Committee, operating independently within the organisation and focused on the evaluation of the different areas and functional activities of the Company. The functions entrusted to the Internal Audit Service include the analysis and proposal of recommendations for improvements to the risk management processes, while it also performs independent evaluations of the efficiency and efficacy of internal controls, albeit at all times in coordination with the Risk Management and Control Unit, in order to avoid any overlaps and/or areas not properly covered.

### **4.3 Monitoring and Reporting Model**

The final element of the Integrated Risk Management System is a monitoring and reporting model capable of providing relevant, appropriate and timely information for all actors involved in the risk management and control process, both upstream and downstream.

It is established as a horizontal element providing the Integrated Risk Management System with dynamic performance and, above all, a proactive approach to allow for risk control and management within the limits established by the Company.

In short, the Integrated Risk Management System implemented by Corporación Financiera Alba serves as a mechanism for management, communication, monitoring and support, for all activities connected with risk identification, management and control. It is essential in order to be able to offer a response to the individual and specific risks of each activity, while providing the necessary framework for coordinated risk management by the Company.

The Internal Control over Financial Information, which aim is to obtain adequate knowledge of the generation of financial information and the internal control systems of the Company, complements the Integrated Risk Management System.

Madrid, 17 June 2019