

RISK MANAGEMENT POLICY

Activities of every company obviously involve different risks. Risk means an event which may harm the company - to prohibit to achieve the targets of the company, affect the ability of the company to provide services, cause losses or otherwise negatively affect the company's operation. Effective risk management allows to identify, prevent and minimize these potential damages in timely manner.

SKONTO GROUP sees risk management as exploration, assessment of significant factors negatively affecting the operations of the company and measure for implementation of restriction, minimization or elimination thereof.

SKONTO GROUP Risk Management Policy determines main principles for management of such factors to ensure continuous development of the Group companies, achievement of targets of the companies, prevent possible losses or harm to the reputation. The Policy applies to all companies' activities.

Main principles determined by risk management of SKONTO GROUP:

- **Integration**
Risk management should be an integral part of decision-making process - it should be integrated into both strategic planning and introducing processes, as well as daily operational activities.
- **Commensurability**
Risk management should be aligned with targets of SKONTO GROUP, as well as measures to be implemented for minimization risks should be commensurate with risk specifics and the amount of threat.
- **Preventive action**
Before performance of any new activities, the possible risks should be assessed, including determination of risk type and level, and whether the risk to undertake is not too high.
- **Response**
Risk management should regularly follow up and respond in a timely manner to external and internal events and changes thereof.
- **Objectivity**
All available information - historical or experience, current, as well as future prospects - should be used for risk assessment.
- **Awareness**
Important, objective and sufficient information shall be delivered in a timely manner to the employees who need it. In order to promote understanding about the risk and its management, regular and systematic education of employees should be performed.
- **Experience**
Risk management system shall be regularly improved in accordance with the principles of best practice and experience.
- **Responsibility**
Responsibility for risk management should be determined in different management levels of SKONTO GROUP, including determination of responsibility and duties for every person individually.
- **Openness**
Risk management should motivate the employees to establish potential risks and to promote reporting on certain risks.

Risk categories

In order to ensure effective risk management, SKONTO GROUP risks are divided into risk categories:

- **Strategic risks** mean risks being related to determination and implementation of strategic targets of SKONTO GROUP and each separate company.

- **Reputation risks** mean risks that may cause losses to SKONTO GROUP or its group companies in relation to negative opinion about the companies or products produced or services provided by them. This group also includes fraud, corruption and conflict of interest risks.
- **Operational or operative risks** mean risks being related to mistakes in daily activities, course of internal processes, information systems and technical resources, not corresponding with requirements of being incomplete, failure to comply with regulations and standards etc.
- **Financial risks** mean risks being related to insufficiency of financial resources for provision of daily activities or development of the companies, including differences in planned expenses versus the real expenses, fluctuations in currency exchange rates, fluctuations in the prices of raw materials, changes in credit interest rates etc.

Implementation and supervision of Risk Management System

The board of the Parent company supervises the establishment and operation of the risk management system across all companies of the Group, while the board of each individual company of SKONTO GROUP is responsible for introduction and successful operation of the risk management system in their company.

The board of each individual SKONTO GROUP company appoints also risk owners for each defined risk group and determines the responsibility level and duties for them. If the risk owner is not appointed for any of risk groups, the management function thereof is undertaken by the head of the company.

Each employee is an obligation to report on any potential risks being observed in daily processes.

The policy is reviewed and approved:

Riga, Latvia, year 2020

SKONTO GROUP
Chairman of the Board

Andris Vilcmeiers