

RISK MANAGEMENT POLICY

Activities of every company obviously involve different risks. Risk means an event that may harm the company – by hindering the process of achieving the goals set by the company, affecting the ability to provide services, causing losses, or otherwise negatively affecting the company’s operation. Effective risk management allows to identify, prevent, and minimize these potential damages in a timely manner.

SKONTO GROUP views risk management as timely identification, assessment of significant factors negatively affecting the operations of the company and implementation of measures to limit, reduce or prevent such factors.

SKONTO GROUP Risk Management Policy sets out main principles for managing these factors to ensure continuous development of the Group companies, achievement of goals of the companies, prevent potential losses or harm to the reputation. The Policy applies to all companies’ activities.

Main principles of SKONTO GROUP risk management

- **Integration**
Risk management should be an integral part of decision-making process - it should be integrated into both strategic planning and implementation of strategies, as well as daily operational activities.
- **Commensurability**
Risk management should be aligned with the goals of SKONTO GROUP, as well as the measures implemented to reduce them should be proportionate to the risk specifics and the magnitude of threats.
- **Preventive action**
Before performance of any new activities, the potential risks should be assessed, including determination of risk type and extent, and whether the risk is not too high for such activity.
- **Response**
Risk management should regularly monitor and respond to external and internal events and changes thereof in a timely manner.
- **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 training of employees should be performed.
- **Experience**
Risk management system shall be regularly improved in accordance with the principles of the 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 identify 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 due to a negative opinion about the companies or their produced products or provided services. This risk category also includes risks of fraud, corruption and conflict of interests.
- **Operational risks** mean risks related to day-to-day operational errors, non-compliant or incomplete internal processes, information systems and technical resources, non-compliance with regulations and standards etc.
- **Financial risks** mean risks 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

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 implementation and successful operation of the risk management system in its company.

The board of each individual SKONTO GROUP company also appoints risk owners for each defined risk group and determines their level of responsibility and obligations. If no risk owner is appointed for any of the risk groups, the management function of these risks is undertaken by the head of the company.

Each employee is obligated to report on any potential risks observed in daily processes.

The policy is reviewed and approved:

Riga, Latvia, year 2023

SKONTO GROUP
Chairman of the Board

Rihards Rāvis