

# Sampo Group Remuneration Principles

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# Sampo Group Remuneration Principles

## Scope of Application

These Remuneration Principles have been established by the Board of Directors of Sampo plc on 9 December 2020 and apply to all Sampo Group companies. Sampo's Board of Directors requires that all Group companies comply with these general guidelines and related policies and instructions.

Sampo plc's subsidiaries decide on their own company-specific policies within these Group-wide Principles, however, taking into account:

- (i) applicable laws, rules and regulations issued by authorities;
- (ii) collective labor agreements; and
- (iii) ethical standards followed in Sampo Group.

Sampo plc's Board of Directors shall review these Principles annually or when deemed necessary, due to regulatory changes, changes in relevant labor markets or changes within Sampo Group.

Sampo plc's Compliance function is responsible for processing the review and updates.

Sampo Group Remuneration Principles apply to the Group CEO and President, and possible deputy Group CEO, as long as they are not conflicting with the Sampo plc Remuneration Policy for Governing Bodies, that is presented to the general meeting of Sampo.

## I Remuneration Principles in the Framework of Sampo Group's Governance Structure

Sampo Group's general governance structure rests on the idea that Sampo plc, as the parent company of Sampo Group, provides subsidiaries with a framework of general principles within which the parent company expects the subsidiaries to organize and carry out their businesses. These principles are manifested in Sampo Group's Code of Conduct, Risk Management Principles, Remuneration Principles and Compliance Principles, which form the core of Sampo Group's internal governance framework.

On the basis of and in compliance with the Group-wide framework, each subsidiary designs and implements a company-specific governance and risk management framework (including e.g. capitalization targets, profit targets, authorizations with risk limits, remuneration policies and other guidelines and instructions), which steers, limits and controls all operations, especially risk-taking. When each company has communicated its own framework to its employees along with any company-specific remuneration policies, the employees will not be able to take excessive and/or unwanted risks without breaching the rules of the risk management framework.



## II Remuneration and Risk Management

Given the inherent risks involved in the businesses carried out in the different Sampo Group companies, it is of paramount importance that the remuneration structure is in line with the company's business strategy and objectives, and that compensation mechanisms are tightly aligned with risk management objectives and practices. Neither the design of any compensation scheme nor the evaluation of the subsequent payouts can be separated from the simultaneous assessment of related risks.

In Sampo Group's Risk Management Principles ("RMP"), Sampo plc's Board of Directors defines the risks inherent with the Sampo Group companies' businesses, outlines Sampo Group's general risk appetite and gives guidance to the measurement and management of risks in subsidiary companies. These Remuneration Principles shall be read – and all compensation mechanisms designed – in parallel with the RMP and more specific risk management tools deployed by the Sampo Group companies.

## III Compensation Mechanisms and Stakeholders

Sampo Group's remuneration strategy shall be responsible towards employees and shareholders. This means that the long-term financial stability and value creation of Sampo Group shall guide the remuneration design.

The starting point of any compensation mechanism shall be to encourage and stimulate employees to do their best and surpass their targets. Remuneration packages shall be designed to reward fairly for prudent and successful performance. At the same time, however, in order to safeguard the interest of other stakeholders, compensation mechanisms shall not generate conflicts of interest and shall not entice or encourage employees to excessive or unwanted risk-taking. Thus, compensation mechanisms cannot be separated from risk management practices.

To ensure the achievement of the wanted steering effects and to make them risk sensitive, each compensation component, as more specifically defined in the company-specific remuneration policies, shall be designed in parallel both with Sampo Group's general and each Sampo Group company's own, more specific risk management framework. Thus, the leading idea of Sampo Group's Remuneration Principles is that all compensation shall be linked to different risks and responsibilities inherent with various business processes. These risks and responsibilities are described in the RMP.

Risk sensitive but fair and rewarding compensation mechanisms enhance Sampo Group's ability to create stake- and shareholder value for the following reasons:

- The motivation of the employees strengthens when strategies, objectives, authorizations, limits, targeted returns and compensation criteria are in balance with each other, clearly defined and properly communicated;
- Sampo Group will be successful in the competition for talent when it can offer competitive compensation packages both to current employees and new candidates;
- Clients get competitively priced, reliable, professional and high-quality service from a reputable institution with motivated employees and effective risk management;
- Shareholders and bondholders comprehend and appreciate that institutions with risk adjusted compensation mechanisms are able to create value and long-term stability; and
- Supervisory Authorities' confidence in Sampo Group's ability to control the risks associated with its activities further bolsters co-operation with the authorities.

## IV Forms of Remuneration

The different forms of remuneration used in Sampo Group – classified by their basic motivation – are the following:

### (a) Fixed Compensation

Fixed compensation is customarily the basis of an employee's remuneration package. Fixed salary shall support financial stability by representing a sufficiently high share of the total remuneration. Fixed salary shall be fair and competitive but not leading in the market. As a rule, fixed salary shall be based on the employee's general responsibility level and position in the organization as well as on other facts, such as salary market data.

### (b) Variable Compensation

Variable compensation can be divided into two main groups, based on the underlying motivation of the compensation.

#### (i) Variable compensation based on the contribution to the company's profitability and on individual performance

1. Short-term incentive programs shall be based on the individual employee's contribution to the company's profitability. The performance criteria and contribution assessment shall be based on an individual performance analysis combined with relevant business unit and/or business area performance as well as with the overall result of the company, the division and/or Sampo Group. The payout from short-term incentive programs shall always have a cap, i.e. the payment shall be limited to a maximum amount. As a general rule, employees who participate in short-term incentive programs are not entitled to at the same time participate in short-term profit-sharing programs, short-term sales incentive programs or to receive sales commissions;
2. Short-term profit-sharing programs are directed to larger personnel groups and the payouts shall be based on the company's profitability. The payout from short-term profit-sharing programs shall always have a cap;
3. Short-term sales incentive programs can be used to reward sales personnel for their individual performance. Sales incentive programs shall not remunerate, and the performance of sales personnel shall not be assessed, in a way that conflicts with the best interests of customers. The payout from short-term sales incentive programs shall always have a cap;
4. Discretionary rewards can be used to reward individual employees for exceptionally good performance. Their purpose is to enhance performance differentiation, especially in personnel groups not eligible for other performance-based variable compensation. Discretionary rewards shall always have a cap; and
5. Sales commissions are based on collective agreements and may in certain labor market segments be used to reward sales personnel for their individual performance.

## (ii) Variable compensation linked to committing employees to Sampo Group

### 1. Long-term incentive schemes

As part of the total remuneration package, in addition to fixed compensation and different forms of other variable compensation, Sampo Group may use long-term incentive schemes to commit the Senior Executive Management and other Key Persons to Sampo Group for a longer period of time. The schemes shall be designed to also align participants' interests with those of the shareholders in a longer perspective by linking the payout of the schemes to key performance criteria and, if applicable, to the positive development of Sampo's share price. The payout from the schemes shall always have a cap.

Additionally, long-term incentive schemes based on financial instruments of Sampo plc shall always, above a certain level or for certain groups of participants, include terms requiring a defined part of the payout to be used to acquire Sampo shares, which shall be held for a defined period of time.

In Sampo Group, the launch of long-term incentive schemes based on financial instruments of Sampo plc, the total payouts from said schemes and the release of Sampo shares subject to a disposal restriction shall be decided by Sampo plc's Board of Directors.

The launch of other long-term incentive schemes and the total payouts from these schemes shall be notified to Sampo plc's Board of Directors in advance of any decision made by a subsidiary of Sampo Group.

## (c) Pension

Pensions shall be based on collective agreements and/or reflect conditions in the relevant labor markets. As a general rule, pension plans shall be of defined contribution nature.

## (d) Other Benefits

Other benefits are largely based on local practices and dependent on country-specific tax treatment. Sampo Group's benefit packages shall reflect conditions in the relevant labor markets.

## V Relative Proportions of Fixed and Variable Compensation

Since the Sampo Group companies' businesses inherently involve taking and managing risks, the compensation packages of individual executives and employees shall be built to reflect their respective influence on risk exposures, risk management and generated profits in the framework of permitted risk-taking as defined in the RMP and more specifically in the company-specific risk management frameworks subordinate to the RMP. General principles, as described in subsections a-f below, adjusted to national regulatory requirements as may be applicable, shall be followed when designing compensation packages:

### (a) Senior Executive Management

The success of the Senior Executive Management in implementing the Sampo Board of Directors' decisions and organizing business activities in general, and risk-taking and management in particular, is critical for the subsidiary companies' profitability and risks. The responsibility related to the position justifies a high fixed compensation and a higher proportion of variable compensation in relation to fixed compensation than for most of the other staff. Accordingly, the members of the Senior Executive Management are entitled to annual short-term incentives, which at maximum payout may be up to the equivalent of nine (9) months' fixed salary and to participate in long-term incentive schemes. The members of the Senior Executive Management of Hastings Group are entitled to annual short-term incentives which at maximum payout may be up to the equivalent of 150% of annual fixed salary and to participate in long-term incentive schemes;

### (b) Business Area Key Persons

Business Area Key Persons who are expected to create profits within the governance framework of their respective business area (e.g. internal guidelines and profit targets) set by the company Board of Directors / the Senior Executive Management are entitled to annual short-term incentives, which at maximum payout may be up to the equivalent of six (6) months' fixed salary and may participate in long-term incentive schemes. The Business Area Key Persons of Hastings Group are entitled to annual short-term incentives which at maximum payout may be up to the equivalent of 100% of annual fixed salary and to participate in long-term incentive schemes;

### (c) Investment and Wealth Management Key Persons

Due to specific labor market conditions and quest for the best talents in the investment and wealth management business, Investment and Wealth Management Key Persons may be entitled to a high proportion of short-term incentives, which at maximum payout may be up to the equivalent of twelve (12) months' fixed salary, and may participate in long-term incentive schemes. Investment Key Persons are authorized to take risk exposures for Sampo Group within the respective governance framework (e.g. investment policies, risk limits and profit targets), while the Wealth Management Key Persons provide wealth management services to institutional, corporate and private customers;

## (d) Specialist Key Persons

Highly qualified experts in demanding positions whose contribution to overall balance between risks, capital and profitability is central because of their roles e.g. in price-setting, risk assessment, compliance and consulting the Senior Executive Management and the subsidiaries' Board of Directors, may also be entitled to variable compensation. The annual short-term incentives for persons in this group may at maximum payout be equivalent to four (4) months' fixed salary and they may by way of exception participate in long-term incentive schemes. The Specialist Key Persons of Hastings Group are entitled to annual short-term incentives which at maximum payout may be up to the equivalent of 40% of annual fixed salary and may participate in long-term incentive schemes;

## (e) Sales Personnel

Compensation packages for sales personnel may include short-term sales incentive programs or sales commissions. For sales personnel, fixed compensation shall represent a sufficiently high proportion of the total remuneration. The Sampo Group companies using short-term sales incentive programs or sales commissions shall ensure that sales personnel strictly follow all applicable internal and external rules and regulations regarding the sale of financial services products; and

## (f) Other Employees

Compensation packages for other employees normally include profit sharing programs. Other forms of variable compensation and the basis for granting them shall be dealt with in the company-specific remuneration policies or guidelines. For this group, fixed compensation shall, however, always form the major part of the total remuneration.



## VI Criteria and Determination of Payout from Short-Term Incentive Programs

The payout criteria for short-term incentive programs are described in subsections a-b below. For other forms of short-term and long-term variable compensation, the payout criteria are described in detail in the company-specific remuneration policies or guidelines or in the program-specific terms and conditions.

### (a) Company-Level Criteria and Determination

The total payout from short-term incentive programs in the Sampo Group companies is always dependent on each company's and/or division's annual reported profit, risk-adjusted profitability and solvency.

### (b) Individual Criteria and Determination

The amount of individual short-term incentive payouts is dependent on the employee's success in meeting the quantitative and qualitative targets set to her/him within the general governance framework. Performance shall be measured on the following levels: individual, business unit, business area, company, division and/or Sampo Group. In general, there shall be a threshold level set for the applicable target measure, after which payout starts to accrue. For the different groups of employees, the relative weight of the different targets is set by using the following criteria:

- (i) Senior Executive Management's annual short-term incentive payouts shall be dependent on the company's, the division's and/or Sampo Group's profitability in general and the performance of the respective business area/unit and the individual in particular. Also other qualitative and quantitative measurable targets set for Sampo Group and/or the division, the company, the business areas/units and individuals shall be taken into account. When considering the annual short-term incentives of the Group CEO and the other members of the Sampo Group Executive Committee, the focus is on the Sampo Group, the division and/or the company-level measures and targets and, for the other Senior Executive Management members, the focus is on the respective divisions, business areas and/or units;
- (ii) Business Area, Investment and Wealth Management Key Persons' annual short-term incentive payouts shall mainly be based on how well they have met their individual profitability targets and other quantitative and qualitative targets set for their area of responsibility within the given limits, authorizations and other instructions; and
- (iii) Specialist Key Persons' short-term incentives shall mainly be based on a quantitative and qualitative assessment related to their individual area of responsibility.

## VII Decision-Making on Variable Compensation

Sampo plc's Board of Directors shall decide on the total Sampo Group payouts of short-term incentives and long-term incentives based on financial instruments of Sampo plc. In terms of long-term incentives based on financial instruments of Sampo plc, the Board of Directors of each relevant Sampo Group company shall decide, based on the decision of the Board of Directors of Sampo plc, on the final total payout.

As regards short-term incentives, Sampo plc's Board of Directors shall decide on the maximum total payout amounts of short-term incentives per division to define a maximum total payout amount for Sampo Group. Each Sampo Group company's Board of Directors shall decide, within the amount approved by Sampo plc's Board of Directors, on the final total payout of short-term incentives.

The decision on payout of short-term and long-term incentives shall be based on the assessment of the incurred risk exposure and the fulfillment of solvency capital requirements. Each Sampo Group company can decide to cancel in whole or in part or to postpone the payment of short-term and long-term incentives if material non-acceptable risk-taking or breaches against internal or external rules for the business have materialized or if the payment would threaten the company's ability to maintain an adequate capital base.

Variable compensation mechanisms shall always be based on the employer's unilateral decision. To guarantee fair and objective total remuneration to executives and employees, all decisions concerning individual remuneration made by a leader shall also be approved by his/her leader (grandparent principle).

## VIII Deferral of Variable Compensation

Regardless of how carefully the risk management framework and different compensation mechanisms are designed, there is a risk that the granted variable compensation in retrospect proves to have been erroneous due to non-acceptable risk-taking or breach of internal or external rules. This may be due mainly to two reasons:

- (a) some employees may have breached relevant risk limits and/or authorizations or have “misused the system” (i.e. the original basis for variable compensation is thus no longer valid); or
- (b) risks taken to generate the profits prove to be higher than estimated when risk limits and/or authorizations were originally established (identified risks were underestimated, new risks related to the activities have emerged or operational environment has changed significantly).

Therefore, the payment of a certain portion of the variable compensation payable to the Senior Executive Management and to certain key persons (who shall be specified in the company-specific remuneration policies) shall be deferred for a defined period of time as required in the regulatory framework applicable to each Sampo Group company. The remaining part of the variable compensation shall be paid in accordance with normal payment schedule.

After the deferral period, the Board of Directors of each Sampo Group company shall decide whether the deferred variable compensation shall be paid/released in full, partly or cancelled in whole. The Board of Directors of each Sampo Group company may decide to cancel in whole or in part the payment/release of the deferred variable compensation if material non-acceptable risk-taking or breaches against internal or external rules for the business have materialized. In the retrospective risk adjustment review, each Sampo Group company's Board of Directors shall use internal or external auditors as well as the internal Risk Management function.

In addition, each Sampo Group company's Board of Directors may decide to further defer or cancel in whole or in part the payment/release of the deferred variable compensation if the payment/release would threaten the company's ability to maintain an adequate capital base.

## IX Governance and Responsibilities

These Remuneration Principles shall be confirmed by the Boards of Directors in all Sampo Group companies. Policies complementing these Principles shall be decided by the Board of Directors in the respective Sampo Group companies.

Sampo plc influences the remuneration of Topdanmark Group at the general meeting of Topdanmark A/S, in which the remuneration policy of Topdanmark Group is dealt with.





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