

# VÍS Insurance - Remuneration Policy

## 1. Purpose and objectives

The principal objective of the Remuneration Policy of VÍS Insurance hf. („VÍS“) is to make the company a desirable workplace, and in so doing place it at the forefront of the Icelandic insurance market. To promote continued growth and success the company must have the flexibility to offer competitive wages and other financial rewards, comparable to what is customary in its working environment, and reflecting employees' scope, responsibility and performance.

The company has an equal pay system which has been certified as satisfying the requirements of the IST 85 standard, cf. Art. 19 of the Act on Equal Status and Equal Rights for Males and Females.

VÍS's remuneration policy is intended to

- provide shareholders with insight into the company's policy regarding the terms of employment of its directors, managers, employees in key business divisions and other company employees;
- ensure that terms of employment and bonuses effectively support the company's objectives;
- contribute to sound and effective risk management while deterring risk appetite in excess of the company's risk tolerance;
- make sure that the terms of employment accord with the company's values, performance indicators, the company's current situation, and laws, regulations and good business practices for sound and reliable operations;
- avoid conflicts of interest.

VÍS's Remuneration Policy has been adopted as provided for in Art. 79 a of Act No. 2/1995, on Public Limited Companies, provisions of Act No. 100/2016, on Insurance Activities, and Art. 22 of Regulation No. 585/2017, on Insurance Activities. It is also based on rules of corporate governance and is intended to reinforce the company's efforts to provide quality services while laying the groundwork for a good return on equity, with the long-term interests of the company, its owners, customers and employees as a guiding principle. The Board is responsible for the company's Remuneration Policy and for ensuring there are processes and monitoring in effect to ensure its implementation. Each year the opinion of Risk Management shall be obtained regarding the impact of remuneration on the company's risk-taking and its operations, and the opinion of Compliance as to how well it complies with laws and rules.

## 2. The Board's Remuneration Committee

The Remuneration Committee is one sub-committee of VÍS's Board of Directors. The Board of Directors elects three directors to form the Remuneration Committee. The majority of the Committee shall be independent of the company and its daily administrators.

The role of the committee is to provide guidance for the Board of Directors regarding the remuneration of senior executives, the CEO, managing directors, the Compliance Officer and Internal Auditor and to advise on VÍS's Remuneration Policy.

The Committee is to see to it that the terms of employment of the bank's executives are within the framework provided by the Remuneration Policy and report to the Board on this yearly in connection with the bank's Annual General Meeting (AGM). The Remuneration Committee shall review the Remuneration Policy each year and submit it to the AGM.

## 3. Remuneration

### Remuneration to the Board of Directors

Remuneration to directors and alternates for the coming operating year shall be decided at the AGM each year, as provided for in Art. 79 a of Act No. 2/1995 on Public Limited Companies. The AGM shall decide on payment for membership of sub-committees of the Board.

The Board of Directors shall submit a proposal to the company's AGM on remuneration for board work and work in sub-committees for the coming financial year. This remuneration shall reflect the responsibility involved in the work, the complex environment in which the company operates and the work contribution required for the task during the operating year and shall furthermore take account of remuneration to directors of similar companies.

Directors may not be paid or rewarded by means other than those referred to above.

### **3.2 Remuneration to the CEO**

A written employment contract shall be concluded with the CEO. His/Her terms of employment shall be competitive in the Icelandic context.

The basic salary and other payments to the CEO shall be based on his/her education, experience, competence and responsibility and the scope of the work. Other terms of employment shall be specified in the employment contract, including pension fund contribution, vacation, benefits and notice of termination of employment. An initial payment may be negotiated with the CEO upon his/her engagement.

### **3.3 Remuneration of employees who have a major impact on the company's risk profile**

The CEO appoints the managing directors of the company's business divisions and other senior executives. The above-mentioned parties are considered to have a major impact on the company's risk profile, as defined in the Regulation on Insurance Activities. Their terms of employment shall be competitive in the Icelandic context. Their basic salary and other payments to them shall be based on their education, experience and responsibility and the scope of the work.

### **3.4 Remuneration of employees of key business areas**

The CEO appoints the heads of the company's key business divisions. The division head engages other employees of the key business division. Their terms of employment shall be competitive in the Icelandic context. Their basic salary and other payments to them shall be based on their education, experience and responsibility and the scope of the work.

### **3.5 Remuneration of other employees**

The terms of employment of other employees shall be competitive in the Icelandic context. Their basic salary and other payments to them shall be based on their education, experience and responsibility and the scope of the work, based on the market group to which each belongs.

### **3.6 Remuneration in general**

In addition to their fixed salary, management and employees may be offered a discount on insurance, use of equipment related to work, etc.

Upon cessation of employment, as a rule no agreement shall be reached providing for pension or termination payments exceeding what is stated in the employment contract. Payments shall never be based on a more lengthy period than provided for by law.

Authorisation to conclude contracts on termination of employment is conditional upon the company having operated at a profit for the past three consecutive years, cf. Art. 51 of the Act on Insurance Activities.

## **4. Variable remuneration aspects - bonus scheme**

### **4.1 General rules on bonuses**

The company's Board of Directors may pay the CEO, managing directors and other key employees bonuses under a special bonus scheme approved by the Board after receiving the opinion of the Remuneration Committee.

A bonus refers to payments and benefits to an employee, including cash and special pension payments and stock options, usu-

ally defined in terms of performance, which are not part of the employee's fixed terms of employment, since the final amount or extent of payment is not known precisely in advance.

The company's bonus scheme must satisfy the current statutory requirements of the Acts on Public Limited Companies and Insurance Activities and the Regulation on Insurance Activities.

#### **4.2 VÍS's bonus scheme**

The purpose of VÍS's bonus scheme shall be to link the interests of shareholders and managers together for the longer term as well as to promote both the company's financial success and the achievement of its strategic operating objectives.

The bonus scheme is intended to encourage and reward good business and professional work.

Bonuses shall be based on pre-determined performance criteria reflecting:

##### **1. VÍS's financial performance (45% of the bonus pot).**

Financial performance refers to good financial results in both the short and long term. The combined ratio and return on equity are measures used to assess the financial performance of VÍS in 2018.

##### **2. VÍS's strategic performance (25% of the bonus pot).**

Successful strategic performance refers to sound operations, development and value creation over the long term. The following four factors measure the success in implementing VÍS's 2018 strategy (strategic performance):

- VÍS's customer satisfaction (according to the Icelandic Performance Satisfaction Index).
- Management and morale (according to a workplace audit).
- Yield on financial assets.
- Progress of specific internal projects.

##### **3. Employee's personal performance (20% of bonus pot).**

The employee's personal performance consists of his/her outstanding management and contribution to VÍS's overall performance. The following are the personal performance indicators for 2018:

- Successful management and morale among employees under the employee's (manager's) direction pursuant to a workplace audit.
- Individual indicators related to the tasks of the relevant unit which an employee belongs to/manages.
- The CEO's assessment of an employee's performance.

##### **4. Compliance and improvement work (10% of the bonus pot).**

To encourage sound operations, consideration shall be given to an employee's attitude towards and compliance with rules and corrective response to comments and suggestions, for example, from Internal Audit. The CEO sets the criteria that will be used for rating each employee in 2018.

The bonus scheme shall be designed so that it does not encourage immoderate risk-taking or contravene the long-term interests of the company or its policyholders and stability on the insurance market, The scheme shall not lead to conflicts of interest; it must combine considerations for protecting the company's customers, creditors and shareholders and, in other respects, conform to good business customs and practices in the insurance business.

The amount of bonuses paid on an annual basis may not exceed 25% of the annual salary of the employees included in the bonus scheme. At least 40% of the bonus payment shall always be postponed for at least three years, provided that the total amount of the bonus exceeds 10% of the annual salary of the employee who participates in the bonus scheme.

VÍS's bonus scheme requires bonuses paid to be disposed of for the purchase of shares in the company with a three-year lock-in period. If the total amount of bonus exceeds 10% of the employee's annual salary, payment of 40% of the amount will be postponed for three years and 60% will be allocated for the purchase of shares in VÍS with a three-year lock-in period. Therefore, no bonus will be paid in cash until at least three years after the financial year when the bonus was earned.

The Board of Directors shall be authorized to limit, revoke or demand repayment of bonuses to employees under certain circumstances, e.g. where an employee is in breach of duty and causes a loss to the company.

Written contracts shall be concluded in the form of annexes to the employment contracts of the individual employees granted bonuses. Employees may not conclude, for example, derivative transactions in order to hedge the risk of bonuses.

Directors and employees of Risk Management, Compliance and Internal Audit shall not be entitled to bonuses.

Payment of bonuses and concluding of bonus contracts shall always be subject to the requirements of the Act on Public Limited Companies, No. 2/1995, the Act on Insurance Activities, No. 100/2016, Reg. No. 585/2017, and rules adopted on their basis.

#### **4.2.1 Cost to VÍS**

It must be borne in mind that management bonuses result in salary-related expenses, although they do not give entitlement to vacation as is the case with other salary payments. As a result, costs of around 25% will arise in addition to bonus payments to employees. On the other hand, salary costs (in the form of bonuses) reduce income tax paid by an amount which roughly offsets the salary-related expense. The direct impact of bonuses, therefore, on the company's profit is that the amount of the bonus, not including salary-related expenses, reduces net profit in the income statement.

Managers' entitlements earned under a bonus scheme shall be recognised as an expense each year as prescribed by financial reporting rules. This applies equally to paid and unpaid bonuses preserved in an escrow account.

#### **4.3 Stock options etc.**

Shares in the company may not be provided either through allocation or in the form of call or put options, pre-emptive rights, nor any other type of payment made connected to shares in the company or the future value of such shares unless authorisation to conclude agreements thereupon has been referred to a shareholders' meeting.

## **5. Credit granted**

#### **5.1 Loan contracts**

All lending to directors, the CEO, other management and employees shall comply with VÍS's general credit rules.

## **6. Information disclosure**

At its AGM, VÍS's Board of Directors shall give an account of the terms of employment of management and directors, the main aspects of its bonus scheme and explain the implementation of the previously approved Remuneration Policy. The annual financial statements shall include an account of the bonus scheme and bonus entitlements earned. It shall contain information on the company's total liabilities and payments made for bonuses. In addition, the annual financial statements shall give an account of the overall terms of employment of key executives in accordance with accounting principles.

This Remuneration Policy shall be published on the company's website and accessible to all company employees.

## **7. Adoption of the Remuneration Policy and other matters**

This Remuneration Policy was adopted at a meeting of VÍS's Board of Directors on 28 February 2018 and shall enter into force once approved by the company's AGM.

The company's Remuneration Policy shall be reviewed each year and referred to the company's AGM for approval with or without amendments.

The Remuneration Policy serves as a guideline for the Company and the Board of Directors. The Board of Directors shall record major deviations from the Remuneration Policy and the grounds substantiating the same in minutes of its meetings. The Board must provide an account of such deviations to the AGM.

*Thus adopted at the AGM of the company on 22 March 2018*