Vátryggingafélag Íslands hf.

Consolidated Financial Statements

2021

These financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

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Report and Endorsement of the Board of Directors and the CEO for 2021

The consolidated financial statements of Vátryggingafélag Íslands hf. ("the Company" or "VIS") for the year 2021 consist of the annual financial statements of the Company and its subsidiary, Líftryggingafélag Íslands hf., together referred to as "the Group". The Company's main operations consist of insurance underwriting and investment activities. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements for companies listed on a regulated securities market.

2021 operations and financial position

According to the statement of financial position and other comprehensive income, the Group's profits after taxes for the year amounted to ISK 7,684 million, a 327% increase from 2020 when profits after taxes amounted to ISK 1,798 million.

According to the balance sheet, the Group's assets at year-end amounted to ISK 59,063 million (2020: 54,762), liabilities were ISK 38,610 million (2020: 37,770) and equity at year-end amounted to ISK 20,453 million (2020: 16,992). The Group's solvency ratio without the planned dividend is 1.76, but is 1.48 at year-end 2021 taking the planned dividend into account. In 2021, the average number of full-time equivalent positions at the Company was 188. Earned premiums in 2021 amounted to ISK 23,041 million, 2.4% increase year-over-year.

Claims incurred, net of reinsurance, amounted to ISK 16,330 million, decreasing by 14% from the previous year. The underlying underwriting operations for the year were good, partly due to the effects of COVID-19. The combined ratio for the year was 97.1% versus 109.8% in the prior year.

The Company's investments

In 2021, the Company achieved its best investment result since listing. Investment income in 2021 amounted to ISK 8.2 billion, representing an 18.7% nominal rate of return; it is worth mentioning that 2020 was previously the Company's best investment year with ISK 5.3 billion in investment income and a 14.0% nominal rate of return. A rise in the value of equities accounted for a majority of the investment income. Listed equities increased by ISK 5.0 billion, representing a 53.4% nominal return of return, as compared to a 37.2% return for the Icelandic equity index. Unlisted equities also performed very well during the year, increasing by ISK 1.8 billion, or 47.3%. Bond investment income was considerably lower, with other bonds performing the best, increasing by just over ISK 0.6 billion or 5%, while other categories were up less.

Share capital and allocation of profits

The Company's share capital amounted to ISK 1,894 million at year-end, with each share having a nominal value of ISK 1. All shares are in the same class and carry the same rights. The Company is listed on Nasdaq Iceland. The volume of trading in the Company's shares increased by 2.2% last year. Daily volume was up 1.8% and the number of trades was up 1.4%. The Company's shares traded at 14.4 at the beginning of the year and 20.40 at year-end ─ representing a 41.7% increase over the year. In addition, on March 26 2021, dividends were paid to shareholders in the amount of ISK 0.85 per share and the return on shareholders, taking into account dividends, was about 47.6%.

At the 2022 Annual General Meeting, the Board of Directors will propose that the Company pay shareholders a dividend of ISK 2.00 per share for the year 2021, or approximately ISK 3,789 million in total, representing 49% of the Company's after-tax earnings for the year. Thereof, ISK 3,500 million will be paid to shareholders, taking into account own shares. Last year the Company paid a dividend of ISK 1,610 million to shareholders, while also purchasing 144 million of its own shares under a share repurchase program. Information on changes in equity and disposal of profits can be found in the annual financial statements.

There were 709 shareholders at the beginning of the year and 871 at year-end.

Approximately 51% (Q3: 53%) of the shares are owned by pension funds, 15% (Q3: 13%) by domestic funds, 14% (Q3: 14%) by other legal entities, 7% (Q3: 7%) by individuals, 6% (Q3: 7%) by financial undertakings and 1% (Q3: 1%) by foreign entities. The Company owns 144,462,192 treasury shares that were acquired through the purchase of own shares under the Company share repurchase programs. Further details on treasury shares are provided in note 22.

Ten largest shareholders at year-end were:

Name of shareholder:	Share
Lífeyrissjóður verslunarmanna	8,38%
Gildi-lífeyrissjóður	7,74%
Vátryggingafélag Íslands	7,63%
Frjálsi lífeyrissjóðurinn	7,48%
Lífeyrissjóður starfsmanna ríkisins A-deild	6,84%
Sjávarsýn ehf.	5,01%
Stapi lífeyrissjóður	3,99%
Brú Lífeyrissjóður sveitarfélaga	3,60%
Birta lífeyrissjóður	3,53%
Arion banki hf.	3,35%

Shareholders' meetings and Articles of Association

The Company's Annual General Meeting was held on 19 March 2021. The meeting approved the 2020 annual financial statements and a proposal for the disposal of the Company's profits. A Board of Directors, auditor and Nomination Committee were also elected at the meeting. The Company's Remuneration Policy, which includes an incentive scheme for the Company's management and employees, was approved at the meeting, and the rules of procedure of the Nomination Committee were amended. The meeting approved a 12-month authorisation for the Board of Directors to purchase shares in the Company for the purpose of i) making a market in the Company, ii) instituting a formal repurchase program and/or iii) making an offer to shareholders generally for the repurchase of their shares.

The Company's current Articles of Association were approved at the Company's Annual General Meeting on 19 March 2020. The Articles of Association of the Company may only be amended at a valid shareholders' meeting of the Company, provided that the notice of the meeting clearly indicates that such amendment is proposed and outlines the main substance of the amendment.

Corporate governance

Good corporate governance provides the foundation for responsible management and well-conceived decision-making, while promoting reliable relations between shareholders, the Board of Directors, management, employees and other stakeholders. In accordance to the Act on Insurance Activities and the Guidelines on Corporate Governance, the Company's Board of Directors has prepared a Statement of Corporate Governance, which comes as an annex to the financial statements and is published on the Company's website vis.is.

The principal members of the Board of Directors are Stefán Héðinn Stefánsson, Chairman, Vilhjálmur Egilsson, Vice-Chairman, Guðný Hansdóttir, Marta Guðrún Blöndal and Valdimar Svavarsson. Sveinn Friðrik Sveinsson and Ragnheiður Hrefna Magnúsdóttir serve as alternate directors. The gender ratio of the board is 60% male and 40% female. See further information on the composition and activities of the Board of Directors, Senior Management and subcommittees in the accompanying Corporate Governance Statement.

Risk management and internal control

Risk management is one of the key functions of an insurance company. The Company has adopted a risk management policy as required by law, which is designed to meet the required standards for insurance companies' risk management. The policy is approved by the Board. The policy addresses the organisation and implementation of risk management within the VIS and Lífís group, identification of risk factors, reporting and information disclosure and the duty of employees to contribute to the success of the policy. The Company has also adopted a policy on own risk and solvency assessment, ORSA. Its findings provide information to the Board and management on the Company's risk profile and capital requirements, based on given assumptions. The results thus need to be taken into account in all strategic decisions, in preparing business and operating plans, treasury operations, and development of new products. Further details on risk management are provided in note 29.

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Performance link between shareholders and management

The employee incentive scheme is designed to bring together the long-term interests of shareholders and employees. Its purpose is to support the Company in its efforts to achieve both its financial and strategic goals. The Company's bonus scheme complies with and is subject to the requirements laid down in Act No. 2/1995 on Limited Liability Companies, Act No. 100/2016 on Insurance Activities, Regulation No. 940/2018, and any rules established on the basis thereof. The rules governing VIS's bonus scheme are aimed at ensuring that bonuses do not encourage excessive risk-taking, do not undermine the Company's long-term interests and those of policyholders or stability in the insurance market, do not lead to conflicts of interest, are consistent with considerations of protection of the Company's customers, creditors and shareholders, and are otherwise consistent with good practices in the insurance field and sound and healthy insurance operations.

The global pandemic and its impact on the operations

The coronavirus pandemic had a profound impact on all aspects of society last year, much like the year before. Emphasis was placed on supporting customers and showing understanding of the situation, for instance by extending payment deadlines.

Despite significant impacts on the economic environment, the impact on VIS's finances proved to be insignificant in 2021; in fact, when looking at the claims for the year, the impact could even be said to have been positive.

The Company suffered some direct impact from the pandemic, as customers in the tourism sector and related industries, such as car rentals, tightened their belts and reduced their insurance coverage. As a consequence, premiums were lower ─ but a reduction in claims had a positive offsetting impact on the Company's operations. The emphasis was on ensuring the well-being of employees and customers, for instance by closing service offices and allowing employees to work remotely.

A relatively small proportion of customers took advantage of extended payments during the pandemic and default rates were low. The uncertain environment has been taken into account in the assessment of receivables and increased caution has been exercised in the assessment. The Company's financial position remains very strong and the Company is well-positioned to meet continued uncertainty, even if it persists longer than anticipated. The Company will continue to monitor developments and work with customers in resolving short-term problems in a manner that serves the long-term interests of both parties.

Simply better insurance

Ökuvísir was launched at the beginning of 2021. Ökuvísir is an alternative in car insurance which gives customers access to an app that provides active feedback on how they can improve their driving habits. The goal is to improve the traffic culture and reduce car accidents in Iceland. During the year, VIS received an international innovation award for Ökuvísir from the technology company OutSystems. Global Banking & Finance Review® also awarded the Company for outstanding innovation in services and product development.

A new and improved process for purchasing life and critical illness insurance was also introduced during the year. This is a digital process from beginning to end where customer experience and automation play a key role. Comprehensive car insurance was also greatly improved during the year ─ and is now by far the most comprehensive coverage available in Iceland.

Equality does not happen by itself

During the year, the Company achieved the important milestone of eliminating the gender pay gap. Equality has been an important guiding light in the Company's operations for the past 20 years, and there have many important accomplishments along the way. VIS was among the first companies to receive equal pay certification in late 2017 - and in accordance with the certification, the pay gap has been insignificant and within desired limits. We have now reached the important milestone of having no measurable gender pay gap at the Company. This is the result of many years of a concerted effort to eliminate the gender pay gap. It is worth noting that the Company's management is now composed equally of men and women.

Last year, VIS was awarded the Gender Balance award by the Icelandic Association of Women in Business for the third time. Gender Balance is a gender equality initiative that seeks to highlight the importance of diversity and gender equality in senior levels of management.

Non-Financial Disclosure

Business model

VIS is a service company that provides customers with insurance coverage that suits their needs and enhances their safety and security through robust prevention efforts.

Our role as an insurance company is to be someone our customers can count on through life's uncertainties. We want to help our customers choose the appropriate insurance coverage ─ and through strong prevention efforts, we help our customers suffer fewer losses. Guided by our policy on sustainability, we strive for our activities and services to contribute in a sustainable way to the good of society, including employees, customers, shareholders and other stakeholders of the Company. With sustainability as a guiding light, the Company is a dynamic force for positive change.

Sustainability is an integral part of all our operations

We want to have a positive impact on society, including employees, customers, shareholders and other stakeholders of the Company. We place great emphasis on sustainability being integrated into all of the Company's operations. The Company focuses on areas where it can have the most impact and are relevant and important to its core business.

A Sustainability Report is published annually in conjunction with the Annual Report, in accordance with ESG criteria (environmental, social and governance), which are the recognised guidelines of Nasdaq. We therefore place special emphasis on environmental, social and governance factors in all our reporting.

VIS is a member of Festa, a centre for social responsibility, as well as IcelandSIF, an organisation that promotes responsible investment, and a signatory of UN-PRI, the United Nations principles for responsible investment. We are also a signatory of the UN Women's empowerment principles, as well as the UN Global Impact, which guides our implementation of responsible policies. The Company undertakes to work on the ten UN principles in the area of sustainability and support their key goals.

Extensive work took place in 2019 when the Sustainability Policy was formulated and the third version of the policy was approved in December 2021. The Sustainability Policy sets out the Company's policy in areas that are relevant to the activities of insurance companies. In 2021, work continued on defining realistic and measurable goals based on the Company's Sustainability Policy. The Board of Directors is responsible for the Sustainability Policy and ensures its implementation. The CEO and senior management are responsible for the implementation of the policy and ensuring it is followed in the Company's operations.

Due diligence process

VIS has defined measures to ensure that the Sustainability Policy and its goals are implemented. The measures taken during the operating year are described in the chapters on environmental, social and governance factors. More detailed non-financial information on the operations of VIS, covering environmental, social and governance factors, can be found in the Annual Report. The summary is based on Nasdaq's ESG guidelines and climate impact calculations are performed by third parties in accordance with the Greenhouse Gas Protocol methodology.

Non-Financial Disclosure

The Company's policies concerning non-financial information, sustainability and ESG (environmental, social and governance)

Policies of the Board of Directors	
Policy on Suitability, Competence and Diversity	Equality and Equal Pay Policy
Corporate Governance Policy	Transportation Policy
Owner Policy	Prevention Policy
Policy on VIS investments	Information Policy
Sustainability Policy	Occupational Safety Policy
Remuneration Policy	
Policy on IT operations	
Compliance Policy	
Conflict of Interest Policy	
Privacy Policy	
Risk Management Policy	
Internal Control Policy	
Policy on measures against money laundering and terrorist financing	
Competition Policy	

The Company's Sustainability Policy supports the United Nation's Global Goals. The Company particularly supports the following global goals:

Global Goal 3: health and well-being	**Global Goal 5:** Gender equality	**Global Goal 8:** Decent work and economic growth	**Global Goal 12:** Responsible consumption and production
Through strong prevention we reduce losses and encourage a better lifestyle. **Global Goal Target 3.6** is to reduce traffic fatalities.	VIS places special emphasis on gender equality with a gender equality policy and code of ethics.	We insure companies, their operations and assets. In this way, we ensure good employment and economic growth. Through our cooperation with companies, we reduce losses and improve employee safety. **Global Goal Target 8.8** is to promote a safe and secure working environment for all workers. By working together with our customers, we promote a safe working environment through strong prevention efforts.	Responsible consumption and production through the implementation of sustainable development.

VIS continues to work on the integration of the Global Goals into its core operations— as well as its reporting.

Non-Financial Disclosure

Environmental

In 2015, VIS signed the Climate Declaration of Festa and the City of Reykjavik, which involves a commitment to reduce greenhouse gas emissions through targeted measures. The purpose of the Declaration is to support the goals of the Paris Agreement to reduce emissions. We are systemically focused on keeping negative environmental impacts to a minimum. Climate issues can have both a direct and indirect effect on the Company's operations. Therefore, it is important that we know what the impact can be ─ and how we can reduce it. The Company is in a position to be a force that can drive changes in society, both through its investments and its interactions with the local community. The goal is for the Company's customers to suffer fewer losses.

We strive to increase automation and digital solutions for our customers, for example in reporting claims and in their payment. To ensure data security, we focus on closing old systems, databases and solutions as soon as possible.

The selection of key metrics for environmental, social and governance factors (ESG) was based on a materiality assessment of the insurance sector and an examination of leading foreign insurance companies with regard to ESG performance and how this could be adapted to VIS's operations. The Company's management continued to delve deeper into ESG factors. In the management's view, the following key metrics apply to VIS's operations.

Non-Financial Disclosure

Main risks	Key metrics	Performance	Goals
Carbon footprint from operations and claims *VIS is aware of greenhouse gas emissions in its operations. However, it is clear that in insurance operations, emissions fall mainly under Scope 3, i.e. emissions stemming from the insurance and investment portfolio. VIS does not specifically measure this, but closely monitors the methodology used for such calculations, e.g. by the Partnership for Carbon Accounting Financials (PCAF).*	**Emissions intensity** *Emissions intensity shows total GHG emissions based on the main sample sizes in the Company's operations.*	We have defined an action plan on how we intend to reduce emissions by 2025. The remaining emissions from the Company's operations are offset with certified units from Natural Capital Partners. Emissions intensity as a percentage of revenue was 6.9 kg CO2/ISKm – increasing by 22%.	Due to the nature of our operations, we need to work with large amounts of waste, e.g. from losses. We are committed to disposing of all waste in the proper manner and thereby contributing to a circular economy. We intend to define goals as part of an environmental action plan, in particular regarding waste, water and energy use and recycling. We want to map and disclose the extent of reuse and recycling. We intend to know the scope and our contribution to the circular economy. Define a policy and goals for responsible disposal. Emphasis on reuse and recycling with respect to losses.
	Does the Company have an environmental policy?	Greenhouse gas emissions increased by 20% between years, which is mainly due to increased use of resources (purchases of computers and monitors) due to the global pandemic. Emissions due to staff travel to and from work increased 16% from the previous year, and emissions due to air travel remained unchanged. This is in line with our expectations – as an increase was expected between the years 2020 and 2021, and between the years 2021 and 2022. These results are also consistent with expectations of a smaller impact from the pandemic on emissions in 2021 than in 2020 according to the Company's action plan to reduce emissions by 2025.	Work began in 2020 on defining realistic and measurable goals based on the Company's Sustainability Policy. This work was completed in 2021.
	Does the Company have a sustainable product offering?	Ökuvísir was launched in 2021. This is an alternative in auto insurance which awards drivers for driving less and improving their driving behaviour, thereby contributing to safer traffic and lower carbon emissions.	Encourage our customers to drive more safely, as this reduces emissions.

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Non-Financial Disclosure

Social

It is the Company's policy to have a positive impact on its community. The Company respects the human rights of its customers and partners as provided for in the United Nations Universal Declaration of Human Rights. If a supplier or partner is found to be in breach of human rights, the Company reserves the right to terminate its business relationship with them.

In the area of charitable contributions, the Company focuses on projects that have a preventive value, as prevention is intertwined with the Company's history and identity. It is part of the Company's corporate culture and an important aspect of its operations. The purpose of prevention is to reduce accidents among customers and in society as a whole. With our Innovation Fund, we support projects related to innovation and the development of effective prevention efforts.

The Company is committed to ensuring safe working conditions for its employees. The Company adheres to an occupational safety policy designed to ensure the safety and good health of employees. The Company has also established an ambitious human resources policy.

Main risks	Key metrics	Performance	Goals
Human rights at suppliers and in the Company's value chain.	**Results of supplier evaluation and number of suppliers who are committed to human rights.**	Work on supplier evaluation began in 2021 and will continue.	Continuing the work of inserting provisions in contracts requiring suppliers to comply with laws on labour, human rights and environmental protection.
Work and knowledge development of staff	**The gender pay gap.** **Diversity at all levels, as per the Company's policy on suitability, competence and diversity.** **Recruitment, employee engagement and employee turnover.**	We managed to eliminate the gender pay gap during the year. The gender distribution became more balanced. The proportion of women went from 42% to 45% during the year. The best ever results of workplace assessment at VIS. Employee engagement measured at 4.36 which is excellent.	We will expand our gender equality disclosure to employees and the public by publishing an equality report in which VIS's equality performance is set out in detail. Offer flexibility in remote working — because staff travel to and from work is the main source of the Company's GHG emissions.

Governance

The Company's corporate governance revolves around clarifying the role and responsibilities of the Board of Directors and the management of the Company. It is designed to help them achieve their goals. Good corporate governance provides the foundation for responsible management and well-conceived decision-making, while promoting reliable relations between shareholders, the Board of Directors, management, employees and other stakeholders.

The Company has in place a policy on the operation of information systems which aims to promote a secure and safe environment for business data. Rules have also been established on the processing of personal data intended to ensure that the Company complies with the Icelandic Data Protection Act and observes good business practices.

Responsible investment means that environmental, social, governance and ethical standards are taken into consideration in investment decisions. These factors are taken into account in the implementation of the investment policy. The Company has significant influence through its asset portfolio. By taking sustainability factors into consideration in its investments, the Company minimizes the risks associated with sustainability.

All employees of the Company sign a Code of Ethics at the start of their employment and thereby confirm their intention to adhere to it. The Company engages in honest and responsible business practices where any sort of bribes or corruption are neither practiced nor tolerated.

The Company has a compliance policy designed to ensure that the VIS group operates an effective compliance unit. The Company's policy on the prevention of conflicts of interest aims to reduce the risk of employees having a connection to specific matters dealt with at the Company such that their impartiality in the handling and processing of individual matters could be called into question. The Company has in place a detailed policy on the handling of reports of misconduct and the protection of whistleblowers.

Main risks	Key metrics	Performance	Goals
Information security	**Promote a safe and secure business data environment.** **Ensure that the Company complies with the Date Protection Act and good business practices.**	The implementation of ISO 27001 on information security began in 2021.	Complete the implementation of ISO 27001 in 2022.
Responsible value chain	**Response rate in regular stakeholder survey.** **Percentage of stakeholders who are satisfied with VIS's sustainability performance.**	2022 stakeholder survey prepared.	VIS will perform a stakeholder survey and review at least every other year. Define ESG factors that we emphasise in communications with suppliers (supplier code of conduct).
Good corporate governance	**Diversity on the Board of Directors and committees, as per the Company's policy on suitability, competence and diversity.** **Processes for whistleblowing.** **Shareholder rights.**	Women make up 40% of the Board of Directors and 67% of committee chairs. VIS has in place processes for whistleblowing. Remote participation in shareholders' meetings.	To maintain a minimum of 33% of each gender on committees. To improve transparency towards shareholders and facilitate their participation in shareholder democracy.
Responsible investment	**Whether ESG factors are taken into account in investment decisions.**	In 2021, VIS became a signatory of the UN Principles for Responsible Investment.	Define active involvement in investments (e.g. through a conversation about ESG with companies in which investments are made). Measure and assess the portfolio's carbon footprint.

Statement of the Board of Directors and CEO

In our opinion and to the best of our knowledge, the consolidated annual financial statements of Vátryggingafélag Íslands hf. give a true and fair view of the Group's operating results for the year 2021, and its assets, liabilities and financial position as at 31 December 2021. It is also our opinion that the consolidated annual financial statements and the report and endorsement by the Board of Directors and the CEO give a true and fair view of the development and performance of the Group's operations and its financial position at year-end and describe the principal risks facing the Group.

The Board of Directors and the CEO of Vátryggingafélag Íslands hf. have today reviewed the Company's consolidated annual financial statements for the year 2021 and confirm them with their signatures. The Board of Directors and the CEO recommend that the consolidated annual financial statements be confirmed at the Company's Annual General Meeting.

Reykjavik, 24 February 2022

On the Board of Directors

Stefán Héðinn Stefánsson
Chairman of the Board

Vilhjálmur Egilsson
Vice-Chairman of the Board

Marta Guðrún
Blöndal

Valdimar Svavarsson

Guðný Hansdóttir

CEO

Helgi Bjarnason

Independent Auditor's Report

To the Board of Directors and the Shareholders of Vátryggingafélag Íslands hf.

Opinion

We have audited the accompanying consolidated financial statements of Vátryggingafélagið Íslands hf. and its subsidiaries (the group) for the year 2021, excluding the board of directors report.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU), and applicable articles in Icelandic law on annual accounts.

Our opinion is consistent with our additional report to the Audit Committee and board of directors.

The consolidated financial statements comprise
- The board of directors and CEO report
- The consolidated statement of comprehensive income for the year January 1, 2021 to December 31, 2021
- The consolidated statement of financial position as at December 31, 2021
- The consolidated statement of changes in equity for the year January 1, 2021 to December 31, 2021
- The consolidated statement of cash flows for the year January 1, 2021 to December 31, 2021
- Notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.
- The board of directors and CEO report and notes 33 and 34 is excluded from the audit, refer to section reporting on other information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Independence
We are independent of the group in accordance with Icelandic laws on auditors and auditing and the code of ethics that apply to auditors in Iceland and relate to our audit of the group's consolidated financial statements. We have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the group and its subsidiaries are in accordance with the applicable law and regulations in Iceland and that we have not provided non-audit services that are prohibited under Article 5.1. of Regulation (EU) No. 537/2014. See further disclosure in note 9.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	Audit procedures
Estimate of claims outstanding, including assumptions and calculations on which it is based on: Refer to note 26 "Technical provision". Claims provision is the value of reported claims and actuarial plan for claims incurred but not reported and amounts to ISK 21.135.603 thousand at the end of the year 2021 and represents 54,7% of total liabilities. Claims provision is a material financial statement line item and because of complexity and the magnitude of estimation in relation to calculation of the claim reserve it is a key audit matter in our audit. Technical provision at year-end is determined as best estimiate in accordance with provisions of chapter XIV. in law on insurance operations no. 100/2016. Claims provision is the sum of best estimate of reported claims and claims incurred but not reported at year end. The main estimate in the technical provision is the claims incurred but not reported Estimated value of technical provision is based on the methods of Solvency II. Other estimation in the claims provision is the assessment of claims that have a long settlement period, as the initial estimate may differ from the final settlement of claims. The assessment of claims is dependent on the quality of the underlying data. This includes a complex assessment of the future development of events and a slight change in the assumptions can significantly change the amount of claims.	PwC´s actuarial specialists assisted us in performing our audit procedures and specially in regards of the calculations of the best estimate of claims incurred but not reported. Audit of claims outstanding estimates included, among others, the following factors: • Claims handling process and estimation process were understood and evaluated. • Control activities for the evaluation of outstanding claims are tested. • We tested with substantive testing open claims at year end and paid claims during the year. • We understood and evaluated management´s presumptions in estimating the claims provision, including historical data about settlement of claims to different business clases. Our evaluation included, among other things, reviewing and assessing important factors in the estimation of the claims outstanding. • We tested reconciliations between systems which the claims provision calculations are based on. • PwC´s actuarial specialists performed independent calculation of the claims outstanding. • Related notes were reviewed.

Independent Auditor's Report

Key Audit Matters	Audit procedures
Valuation of unlisted securities. Refer to note 28 "Financial instruments". Financial assets at fair value through profit or loss are the Group´s largest asset amounting to ISK 43.458.577 thousands or the equivalent of 73,6% of total assets at year end 2021. A significant part or about 69,1% of securities are listed on the market and therefore their quoted market prices are known at the end of the reporting period. Total investment income of financial instruments are ISK 7.659.599 thousand. The part of the financial assets at fair value throught profit or loss requiring special attention in the audit are unlisted securities where fair value is estimated using valuation techniques and is subject to uncertainty. Therefore unlisted securities are a key matter in the audit. Valuation techniques can be the use of recent arm´s length market transactions, reference to the current fair value of another instrument that is substaintially comparable, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transacions. These securities are defined in level 2 and 3 according to level of fair value in IFRS 13. The value of unlisted securites amount to ISK 13.424.480 thousand of the equivalent of 22,7% of total assets at the year end 2021.	PwC´s valuation experts assisted us in auditing unlisted financial assets at fair value through profit or loss. Audit of unlisted financial assets at fair value through profit or loss included, among other things, the following factors: • We understood and evaluated the methodology and assumptions for valuations and compared with common criteria for similar assets. • We performed sampling procedures of securities and performed and independent calculations on fair value. • The data on which the calculation and assumptions were based on in different valuations methods wete reviewed and assessed. • We verified those cased where valuations was based on recent transactions. • Classifications of financial assets at fair value throught profit or loss in fair value levels was reviewed. • Control activities related to investment income and valuation of financial instruments tested. • Received confirmation of registration of investment income from 3rd party. • Related notes were reviewed.

Reporting on other information, including the statement of the Board of Directors and CEO

The board of directors and Chief executive officer are responsible for other information. The other information comprises of statement of the Board of Directors and CEO and notes 33 and 34, which we obtained prior to the date of this auditor's report.
In addition other information comprises the annual report and the describe other information not yet received, which is expected to be made available to us prior to publication.
Our opinion on the consolidated financial statements does not cover the other information, including the statement of the Board of Directors and CEO.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

With respect to The statement of the Baord of Directors and CEO we have, in accordance with article 104, of the Icelandic law on annual accounts reviewed that to the best of our knowledge, the statement of the Board of Directors and CEO accompanying the consolidated financial statements includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the consolidated financial statements.

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Responsibilities of the board of directors and the chief executive officer (frh.)

The board of directors and the chief executive officer are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and applicable articles in Icelandic law on annual accounts, and for such internal control as determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the groups' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)
As part of our audit of the consolidated financial statements of Vátryggingafélag Íslands hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Vátryggingafélag Íslands hf. for the year 2021 with the file name "213800QFQIHO7KG2P786-2021-12-31-en.zip" is prepared, in all material respects, in accordance with law no. 20/2021 Act on securities issuer obligations to issue information and self-report relating to requirements under the European single electronic format regulation EU no. 2019/815, which include requirements concerning preparation of the consolidated financial statements in XHTML format and iXBRL markup.

The board of directors and Chief executive officer are responsible for preparing the consolidated financial statements in accordance with law no. 20/2021. This responsibility includes preparing the consolidated financial statements in a XHTML format in accordance to EU regulation no. 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements are prepared in all material respects, in accordance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the consolidated financial statements of Vátryggingafélag Íslands hf. for the year 2021 with the file name "213800QFQIHO7KG2P786-2021-12-31-en.zip" is prepared, in all material respects, in accordance with the European single electronic format regulation EU no. 2019/815.

Appointment
We were first appointed as auditors at the company's annual general meeting on March 22, 2018. Our appointment has been renewed annually at the company's annual general meeting representing a total period of uninterrupted engagement appointment of 4 years.

Reykjavík, February 24, 2022.

PricewaterhouseCoopers ehf.

Kristinn Kristinsson
certified public accountant

Statement of comprehensive income 2021

	Notes	2021	2020
Premiums earned		23.041.082	22.495.797
Premiums earned, reinsurers' share		(739.826)	(741.998)
Premiums earned, net of reinsurance	6	22.301.256	21.753.800
Interest income		606.064	558.927
Foreign exchange difference		(6.301)	297.150
Fair value changes of financial assets		7.659.599	4.428.419
Investment income	7	8.259.362	5.284.496
Other income		66.332	65.207
Total income		30.626.950	27.103.502
Claims incurred		(17.252.408)	(19.260.774)
Claims incurred, reinsurers' share		922.312	291.380
Claims incurred, net of reinsurance	8	(16.330.096)	(18.969.394)
Technical interest rate and fx rate changes of technical provisions		(49.804)	(658.058)
Operating expenses	9	(5.737.583)	(5.413.609)
Interest expenses		(334.686)	(288.866)
Impairment of accounts receivables	10	(40.126)	(157.882)
Total expenses		(22.492.294)	(25.487.809)
Profit before income taxes		8.134.657	1.615.693
Income taxes	11	(450.864)	182.269
Profit for the year		7.683.793	1.797.961
Basic and diluted earnings per share	12	4,39	0,95

The notes on pages 21-47 are an integral part of the financial statements.

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Statement of financial position as at 31 December 2021

	Notes	31.12.2021	31.12.2020
Assets			
Operating assets	13	474.298	605.527
Goodwill and other intangible assets	14	1.460.707	1.670.299
Right-of-use asset	15	699.536	798.274
Deferred income tax asset	11	0	36.417
Financial assets at fair value through profit or loss	16	43.458.577	38.838.589
Bonds and other long-term receivables	16	1.220.802	1.437.894
Investments where investment risk is borne by life-insurance policyholders	17	1.774.154	1.621.832
Accounts receivables	18	6.516.721	6.496.024
Reinsurance assets	19	1.207.380	886.583
Other receivables	20	697.599	794.811
Cash and cash equivalents	21	1.552.903	1.575.825
Total assets		59.062.676	54.762.076
Equity			
Share capital		1.750.000	1.894.462
Statutory reserve		625.620	625.620
Restricted reserves		9.371.188	5.455.207
Retained earnings		8.705.832	9.016.599
Total equity	22	20.452.640	16.991.888
Liabilities			
Subordinated bonds	24	3.032.821	2.889.453
Deferred income tax liability	11	64.728	0
Lease liability	25	742.477	831.419
Technical provision	26	30.286.409	30.072.968
Technical provision for life-insurance policies where investment risk is borne by the policyholders	17	1.774.154	1.621.832
Accounts payables and other liabilites	27	2.709.447	2.354.515
Total liabilities		38.610.036	37.770.188
Total equity and liabilities		59.062.676	54.762.076

The notes on pages 21-47 are an integral part of the financial statements.

Consolidated financial statements of Vátryggingafélag Íslands hf. 2021 18 Amounts are in thousands of ISK

Statement of Changes in Equity for the year 2021

	Share capital	Statutory reserve	Other reserves	Retained earnings	Total equity
Equity 1.1.2020	1.894.462	625.620	2.792.537	9.881.307	15.193.926
Total comprehensive income for the year				1.797.961	1.797.961
Restricted reserve for securites			2.662.670	(2.662.670)	0
Equity 31.12.2020	1.894.462	625.620	5.455.207	9.016.599	16.991.888
Dividends paid, ISK 0.85 per share				(1.596.693)	(1.596.693)
Own shares purchased	(144.462)			(2.481.885)	(2.626.347)
Total comprehensive income for the year				7.683.793	7.683.793
Restricted reserve for securites			3.915.981	(3.915.981)	0
Equity 31.12.2021	1.750.000	625.620	9.371.188	8.705.832	20.452.640

The notes on pages 21-47 are an integral part of the financial statements.

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Statement of cash flows for the year 2021

	Notes	2021	2020
Operating activities			
Profit for the year		7.683.793	1.797.961
Operating items not affecting cash flows:			
Financial income and expenses		(265.077)	(567.211)
Fair value changes of financial assets		(7.659.599)	(4.428.419)
Sale of operating assets		(3.676)	(1.176)
Depreciation and amortisation		894.105	597.434
Changes in operating assets and liabilities:			
Financial assets, change		2.895.184	(2.148.389)
Bonds and other receivables, change		217.092	405.193
Accounts receivable, change		78.885	828.233
Reinsurance assets, change		(320.796)	187.603
Other assets, change		98.806	491.337
Tax liability, change		101.146	(172.069)
Technical provision, change		213.441	2.496.264
Accounts payable and other liabilities, change		253.756	572.320
Cash flows from opearating activities before interest and tax		4.187.058	59.081
Interest income received		606.064	840.880
Dividend received		144.427	76.629
Financial expenses paid		(197.522)	(187.843)
Income taxes paid		0	(330.158)
Cash flows from operating activities		4.740.028	458.589
Investing activities			
Purchase of operating assets	13	(46.446)	(103.317)
Sale of operating assets		25.601	8.770
Purchase of software	14	(393.748)	(617.425)
		(414.594)	(711.972)
Financing activities			
Purchase of treasury shares		(2.626.348)	0
Dividends paid		(1.596.693)	0
Capital payment of lease liability		(125.218)	(115.842)
		(4.348.258)	(115.842)
Decrease in cash and cash equivalents		(22.824)	(369.226)
Cash and cash equivalents at the beginning of the year		1.575.825	1.929.851
Effect of movements in exchange rates on cash held		(97)	15.201
Cash and cash equivalents at year end		1.552.903	1.575.825

The notes on pages 21-47 are an integral part of the financial statements.

Consolidated financial statements of Vátryggingafélag Íslands hf. 2021 20 Amounts are in thousands of ISK

Notes

1. Reporting entity

Vátryggingafélag Íslands hf., hereafter referred to as "the Company", "the Group" or "VÍS", is a limited liability company and operates according to law no. 100/2016 on insurance operations and law no. 2/1995 on limited liability companies. The Company´s headquarters are at Ármúli 3, Reykjavík.

The consolidated financial statements of Vátryggingafélag Íslands hf. comprise the financial statements of the Company and its subsidiary, Líftryggingafélag Íslands hf. ("Lífís"). The Group's operations consist of casualty insurance, life insurance and investment activities. The Icelandic Financial Supervisory Authorities supervises the operations of the Group according to law no. 87/1998 on the official supervision of financial operations.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Icelandic law on annual accounts. The financial statements were approved and authorised for issue at a board meeting on 24 February 2022. A summary of significant accounting policies is provided in note 32.

3. Functional and presentation currency

These consolidated financial statements are presented in Icelandic Krona (ISK), which is the Company´s functional currency. All amounts are presented in thousands of ISK unless otherwise stated.

4. Accounting estimates

Preparing financial statements in accordance with IFRS requires management to make assumptions, estimates and apply judgement that affect the assets and liabilities at the reporting date, disclosures in notes and income and expenses. Estimates and judgements are based on experience and various other factors that are considered appropriate and form the basis of decisions made regarding the reported amounts of assets and liabilities not evident by other means.

Estimates and assumptions are reviewed regularly. Changes in accounting estimates are recognised in the period when they are revised.

Management has made assumptions and accounting estimates regarding the following items that materially impact the Group's financial statements:

- technical provision, see note no. 26
- financial assets, see notes no. 16 and 28.2
- intangible assets, see note no. 14
- impairment of account receivables, see note no. 10

5. Operating segments

The Group's operations are in accordance with its organisation and internal reporting divided into three operating segments: Casualty insurance, life insurance and financial activities.

The operating segments' results for the year 2021 are specified as follows:

	Casualty insurance	Life insurance	Financial activities	Total
Premiums earned	21.464.870	1.576.212	0	23.041.082
Premiums earned, reinsurers' share	(504.461)	(235.365)	0	(739.826)
Investment income	150.192	12.994	8.096.177	8.259.362
Other income	66.332	0	0	66.332
Total income	21.176.933	1.353.841	8.096.177	30.626.950
Claims incurred	(16.739.165)	(513.242)	0	(17.252.408)
Claims incurred, reinsurers' share	686.603	235.709	0	922.312
Technical interest rate and fx rate changes og technical provision			(49.804)	(49.804)
Operating expenses	(4.934.973)	(378.359)	(424.250)	(5.737.583)
Interest expenses	0	0	(334.686)	(334.686)
Impairment of accounts receivable	0	0	(40.126)	(40.126)
Total income	189.398	697.948	7.247.311	8.134.657
Income taxes				(450.864)
Profit for the year				7.683.793

Depreciation and amortisation in the amount of ISK 701 million and ISK 2 million are included in the operating results of casualty insurance and financial activities, respectively. Investments of the operating segment of casualty insurance amounted to ISK 440 million. The book value of sold assets for the operating segment of casualty insurance amounted to ISK 26 million.

5. Operating segments (contd.)

The operating segments' results for the year 2020 are specified as follows:

	Casualty insurance	Life insurance	Financial activities	Total
Premiums earned	21.006.570	1.489.227	0	22.495.797
Premiums earned, reinsurers' share	(498.070)	(243.928)	0	(741.998)
Investment income	118.074	9.670	5.156.752	5.284.496
Other income	65.207	0	0	65.207
Total income	20.691.780	1.254.969	5.156.752	27.103.502
Claims incurred	(18.622.223)	(638.551)	0	(19.260.774)
Claims incurred, reinsurers' share	120.318	171.063	0	291.380
Technical interest rate and fx rate changes og technical provision	0	0	(658.058)	(658.058)
Operating expenses	(4.645.831)	(345.577)	(422.202)	(5.413.609)
Interest expenses	0	0	(288.866)	(288.866)
Impairment of accounts receivable	0	0	(157.882)	(157.882)
Operating segment result	(2.455.955)	441.905	3.629.744	1.615.693
Income taxes				182.269
Profit for the year				1.797.961

Depreciation and amortisation in the amount of ISK 409 million and ISK 2 million are included in the operating results of casualty insurance and financial activities, respectively. Investments of the operating segment of casualty insurance amounted to ISK 721 million. The book value of sold assets for the operating segment of casualty insurance amounted to ISK 9 million.

Insurance activities consist of casualty and life insurance, and are specified as follows for the year 2021:

	Property insurance	Marine insurance	Mandatory vehicle insurance	Other vehicle insurance	General liability insurance	Accident and health insurance
Premiums earned	4.941.084	574.670	8.574.297	3.594.823	1.426.880	2.288.735
Claimes incurred	(3.073.062)	(202.580)	(7.442.772)	(2.657.064)	(1.899.089)	(1.536.901)
Operating expenses	(1.220.350)	(133.350)	(1.824.180)	(757.577)	(356.709)	(574.553)
Reinsurance cost, net	(259.245)	(89.704)	(96.402)	(3.362)	663.701	(26.527)
Investment income	35.124	3.707	59.957	24.994	10.136	16.150
Other income	45.986	5.813	14.534	0	0	0
Profit	469.537	158.555	(714.566)	201.814	(155.081)	166.903

	Life-insurance	Health and critical illness insurance	Total direct insurance	Foreign reinsurance	Total
Premiums earned	733.605	842.607	22.976.700	64.382	23.041.082
Claimes incurred	(78.387)	(434.856)	(17.324.710)	72.302	(17.252.408)
Operating expenses	(182.861)	(195.498)	(5.245.079)	(73.102)	(5.318.181)
Reinsurance cost, net	(45.806)	46.150	188.805	(1.470)	187.335
Investment income	6.037	6.956	163.062	123	163.186
Other income	0	0	66.332	0	66.332
Profit	432.588	265.360	825.110	62.235	887.346

Insurance activities consist of casualty and life insurance, and are specified as follows for the year 2020:

	Property insurance	Marine insurance	Mandatory vehicle insurance	Other vehicle insurance	General liability insurance	Accident and health insurance
Premiums earned	4.848.174	505.547	8.107.500	3.401.054	1.371.594	2.345.555
Claimes incurred	(3.780.569)	(337.821)	(7.752.434)	(2.608.543)	(1.295.640)	(2.091.849)
Operating expenses	(1.124.116)	(134.357)	(1.728.889)	(733.118)	(336.270)	(547.683)
Reinsurance cost, net	(203.338)	(84.334)	(43.247)	(2.942)	(15.915)	(26.852)
Investment income	27.301	3.108	46.493	19.712	7.733	13.303
Other income	41.816	334	23.172	(57)	(22)	(37)
Profit (loss)	(190.732)	(47.522)	(1.347.405)	76.106	(268.518)	(307.564)

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5. Operating segments (contd.)

	Life-insurance	Health and critical illness insurance	Total direct insurance	Foreign reinsurance	Total
Premiums earned	704.718	784.510	22.068.652	427.145	22.495.797
Claims incurred	(216.426)	(422.125)	(18.505.407)	(755.367)	(19.260.774)
Operating expenses	(174.304)	(171.273)	(4.950.010)	(41.397)	(4.991.407)
Reinsurance cost, net	(29.100)	(43.765)	(449.493)	(1.124)	(450.617)
Investment income	4.644	5.026	127.320	422	127.742
Other income	0	0	65.206	0	65.206
Profit (loss)	289.532	152.372	(1.643.732)	(370.321)	(2.014.050)

6. Premiums earned, net of reinsurance

	2021	2020
Premiums written	23.405.715	22.290.377
Premiums written, reinsurers' share	(747.912)	(743.781)
Change in unearned premiums	(364.634)	205.420
Change in unearned premiums, reinsurers' share	8.086	1.783
Premiums earned, net of reinsurance	22.301.256	21.753.800

7. Financial income

	2021	2020
Interest income on bank accounts	12.894	17.382
Interest income on bonds	111.717	81.341
Other interest income	481.453	460.203
Interest income	606.064	558.927
Foreign exchange differences	(6.301)	297.150
Fair value changes of shares	5.932.773	2.487.688
Fair value changes of other financial assets	1.726.826	1.940.730
Fair value changes of financial assets	7.659.599	4.428.419
Financial income	8.259.362	5.284.496

Fair value changes of financial assets includes dividend income from shares in other companies amounting to ISK 144 (2020: 77) million.

8. Claims incurred, net of reinsurance

	2021	2020
Claims incurred	17.453.404	17.217.148
Claims incurred, reinsurers' share	(639.176)	(508.692)
Change in claims provision	(200.996)	2.043.627
Change in claims provision, reinsurers' share	(283.136)	217.312
Claims incurred, net of reinsurance	16.330.096	18.969.394

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Notes

9. Operating expenses

	2021	2020
Administrative expenses	1.835.063	1.780.758
Salaries and salary-related expenses	3.008.414	3.039.259
Depreciation and amortisation	894.106	593.592
Operating expenses	5.737.583	5.413.609

Auditors fee for the audit of the annual financial statements amounted to ISK 26.6 (2020: ISK 19.7) million. Fee for review of interim financial statements and other services amounted to ISK 4.6 (2020: ISK 3.8) million. The aforementioned amounts include VAT of 24%.

Salaries and salary-related expenses are specified as follows:	2021	2020
Salaries	2.357.442	2.366.217
Contribution to pension funds	318.435	326.170
Special financial activities tax on salaries	144.956	148.262
Other salary-related expenses	187.582	198.609
Salaries and salary-related expenses	3.008.414	3.039.259
Number of fulltime employees	188	197

Salaries, benefits and contribution to pension funds to the CEO, board members and key management personnel are as follows:

	2021		2020	
	Salaries and benifits	Contributes to pension fund	Salaries and benifits	Contributes to pension fund
Stefán Héðinn Stefánsson, chairman of board VÍS*	9.910	1.140	5.863	674
Guðný Hansdóttir, board member of VÍS*	6.287	723	4.378	503
Marta Guðrún Blöndal, board member of VÍS*	6.732	774	6.869	790
Valdimar Svavarsson, board member of VÍS*	7.497	862	10.779	1.240
Vilhjálmur Egilsson, vice chairman of board VÍS*	6.906	794	6.731	774
Margrét V. Bjarnadóttir, board member of Lífís	2.220	255	2.194	252
Óskar Hafnfjörð Auðunsson, board member of Lífís*	1.070	123	0	0
Ragnheiður Hrefna Magnúsdóttir, alternative board member of VÍS	428	49	428	49
Sveinn Friðrik Sveinsson, alternative board member of VÍS	428	49	543	62
Valtýr Guðmundsson, alternative board member of Lífís	100	12	100	12
Áslaug Rós Guðmundsdóttir, chairman of audit committee*	1.980	228	2.115	243
Jensína Kristín Böðvarsdóttir, chairman of nomination committee*	3.800	437	380	44
Gylfi Dalmann Aðalsteinsson, nomination committee*	1.900	219	190	22
Magnús Bjarnason, nomination committee*	1.900	219	190	22
Ingunn Svala Leifsdóttir, former board member of Lífís*	2.140	246	3.251	374
Former board- and committee members*	0	0	5.372	618
Helgi Bjarnason, CEO of VÍS***	61.456	10.524	62.401	10.976
Executive board and director of investments (6)**	174.395	28.941	172.629	29.190
	289.148	45.594	284.413	45.845

The Company's annual general meeting have agreed incentive system for all employees. The incenctive system is linked to financial goals, policy-related factors and the amount is a maximum of ISK 400,000 per employee. In addition an incentive system for the senior management of the Company (CEO, three executive directors, human resources manager and director of investments) was approved. The incentive system is conditioned to certain milestones in the Company's operations, such as financial performance, employee and customer satisfaction. Payments from the incentive system can not exceed 25% of annual salaries for the senior management and they must buy shares in the Company for the portion of the amount (60%) that is not kept in a three-year escrow accounts. In 2021 ISK 118 million were expensed for the incentive system.

* Payments for audit-, nomination-and/or pay remuneration committee are included.
Members of the board of directors and management do not receive any other benefits in addition to salaries and reimbursements.

** Executive directors: Birkir Jóhannsson, Guðný Helga Herbertsdóttir, Hafdís Hansdóttir, and Valgeir M. Baldursson who left the company in 2021. Anna Rós Ívarsdóttir director of human resources and Arnór Gunnarsson director of investments.

*** The CEO´s salaries without bonuses amounted to ISK 57,9 million in year 2021, compared to ISK 55,5 million in year 2020.

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Notes

9. Operating expenses (contd.)

Board members' shareholding in the Company at year-end is specified as follows: Stefán Héðinn Stefánsson 900,000 shares (directly 500,000 and 400,000 through a company owned by him), Guðný Hansdóttir 887,525 shares (through KG eignarhald ehf., which is 100% owned by her husband). Helgi Bjarnason held 1,626,147 shares and executive board and director of investments held in total 3,955,675 shares.

Shares of spouses and financial dependent children and shares held by companies in majority ownership by board members and management are included and considered as shares of the board members.

10. Impairment of accounts receivables

	2021	2020
Account receivables write-offs	62.775	72.882
Impairment, change	(22.649)	85.000
Impairment of accounts receivables	40.126	157.882

11. Income taxes

11.1 Calculated income taxes

Income taxes are calculated and recognised in the financial statements.

Effective tax rate:

	2021		2020	
	Amount	%	Amount	%
Profit before income taxes	8.134.657		1.615.693	
Income tax according to domestic tax rate	1.626.931	20,0%	323.139	20,0%
Specific financial tax	53.811	0,7%	0	0,0%
Fair value changes of financial assets	(1.157.681)	-14,2%	(482.212)	-29,8%
Share of profit of non-taxable companies	(33.479)	-0,4%	(10.199)	-0,6%
Dividends received	(28.885)	-0,4%	(15.326)	-0,9%
Other changes	(9.832)	-0,1%	2.330	0,1%
Income taxes according to the statement of profit or loss	450.864	5,5%	(182.269)	-11,3%

11.2 Deferred taxes

Deferred income tax liability is specified as follows:

	2021	2020
Tax asset (liability) at the beginning of the year	36.417	(135.652)
Income taxes according to the statement of profit or loss	(450.864)	182.269
Taxes to be paid for the year	349.719	0
Other items	0	(10.199)
Deferred income tax (liability) asset at year end	(64.728)	36.417

The most signifcant items of deferred income tax liability are specified as follows:	2021	2020
Operating assets and software	(57.001)	(83.256)
Customer relationships	0	(11.269)
Financial assets	11.242	(758)
Other items	(18.969)	(49.043)
Carry-forward tax losses	0	180.743
Deferred income tax (liability) asset at year end	(64.728)	36.417

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12. Earnings per share

Earnings per outstanding share is calculated based on the following assumptions:

	2021	2020
Profit for the year attributable to shareholders of the Parent Company	7.683.793	1.797.961
Weighted average number of outstanding shares	1.749.298	1.894.462
Earnings per share	4,39	0,95

Diluted earnings per share is the same as basic earnings per share since neither share-based payment contracts nor convertible bonds have been issued.

13. Operating assets

	Buildings and land	Computer, equipment and vehicles	Total
Cost			
Total value as at 1.1.2020	113.840	1.261.214	1.375.055
Additions during the year	0	103.317	103.317
Sold and disposed of during the year	0	(7.594)	(7.594)
Total value 1.1.2021	113.840	1.356.936	1.470.778
Additions during the year	0	46.446	46.446
Sold and disposed of during the year	0	(21.924)	(21.924)
Total value 31.12.2021	113.840	1.381.459	1.495.301
Depreciation			
Depreciated 1.1.2020	51.355	653.687	705.041
Depreciation of the year	2.198	158.010	160.208
Depreciated 1.1.2021	53.553	811.697	865.249
Depreciation of the year	2.185	153.567	155.752
Depreciated 31.12.2021	55.738	965.264	1.021.001
Carrying amount			
Carrying amount at beginning of the year 2020	62.485	607.527	670.012
Carrying amount at beginning of the year 2021	60.288	545.239	605.527
Carrying amount at end of the year 2021	58.102	416.195	474.298
Depreciation rates	3%	10-33%	

Tax value of buildings at year end 2021 amounted to ISK 102 million. Insurance value of fire insurance of buildings amounted to ISK 285 million at year end 2021. Insurance value of operating assets amounted to ISK 541 million.

14. Intangible assets

	Goodwill	Customer relationship	Software	Total
Cost				
Total value as at 1.1.2020	474.599	563.467	2.520.736	3.558.803
Additions during the year	0	0	617.425	617.425
Total value as at 1.1.2021	474.599	563.467	3.138.161	4.176.228
Additions during the year	0	0	393.748	393.748
Total value as at 31.12.2021	474.599	563.467	3.531.909	4.569.976
Amortisation				
Accumulated amortisation as at 1.1.2020	0	450.775	1.748.264	2.199.038
Amortisation of the year	0	56.347	250.544	306.891
Accumulated amortisation as at 1.1.2021	0	507.121	1.998.808	2.505.929
Amortisation /write-off of the year	0	56.347	546.993	603.340
Accumulated amortisation as at 31.12.2021	0	563.467	2.545.801	3.109.268
Carrying amount				
Carrying amount at beginning of the year 2020	474.599	112.693	772.472	1.359.765
Carrying amount at beginning of the year 2021	474.599	56.346	1.139.353	1.670.299
Carrying amount at year end 2021	474.599	0	986.108	1.460.707
Amortisation rates	0%	10%	10-33%	

The Group's goodwill stems from VÍS's acquisition of Lífís in 2012. At year-end an annual impairment test was carried out, based on discounted future cash flows. According to the impairment test there is no sign of impairment.

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15. Right-of-use asset

Right-of-use assets of buildings:	2021	2020
Right-of-use asset at beginning of year	798.272	898.732
Depreciation of the year	(135.014)	(130.329)
Indexation for the year	36.276	29.871
Right-of-use asset at year end	699.536	798.274

The Group's right-of-use asset is recognized based on the provisions of leasing agreements in accordance with IFRS 16. Total payments for lease agreements for the year amounted to ISK 161 million.

16. Investment securities

Financial assets designated at fair value through profit or loss are specified as follows:	2021	2020
Shares in other companies		
Listed on domestic stock exchange	8.640.961	9.820.160
Listed on foreign stock exchange	637.960	205.675
Other companies	6.026.689	3.439.476
	15.305.610	13.465.311
Other securities		
Government backed securities, indexed	2.901.883	844.752
Government backed securities, non-indexed	5.134.928	4.495.899
Other bonds *	13.162.997	12.672.161
Bond funds *	3.678.748	4.402.156
Institutional investor funds	3.274.412	2.958.311
	28.152.967	25.373.279
Total financial assets at fair value	43.458.577	38.838.589
Bonds and other pledges in long-term receivables		
Loans secured by real estate	1.220.802	1.437.894
Investment securities	44.679.379	40.276.483

* Comparative figures for the year 2020 have been changed

17. Investments where investment risk is borne by the life-insurance policyholders

Lífis has offered life-insurance policies which consist of life insurance and contribution to investments funds. The cost of the life insurance decreases as the amount in the investment fund increases and ceases by the time the amount in the investment fund exceeds the life-insured amount. Life-insurance policyholder bears the investment risk.

18. Account receivables

	2021	2020
Receivables due to domestic operations	6.213.689	5.938.066
Receivables due to foreign operations	141.950	557.957
Other receivables	161.082	0
Account receivables	6.516.721	6.496.024

Changes in allowance of account receivables

Balance at the beginning of year	249.056	164.056
Impairment of account receivables	40.126	157.882
Account receivables written-off	(62.775)	(72.882)
Balance at year end	226.407	249.056

19. Reinsurance assets

	2021	2020
Reinsurers' share in unearned premiums	149.908	141.822
Reinsurers' share in claims provision	992.042	708.905
Claims on reinsurers	65.430	35.856
Reinsurance assets	1.207.380	886.583

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20. Other receivables

	2021	2020
Prepaid taxes	369.898	332.414
Cash in escrow accounts due to foreign operations	119.639	232.368
Accrued interest income and prepaid expenses	208.062	230.030
Other receivables	697.599	794.811

21. Cash and cash equivalents

Cash and cash equivalents at year-end is specified as follows:

	2021	2020
Bank deposits in Icelandic Krona	1.511.918	1.473.182
Deposits in foreign currencies	40.985	102.643
Cash and cash equivalents	1.552.903	1.575.825

22. Equity

Share capital of Vátryggingafélag Íslands hf. is specified as follows at year-end:

	2021		2020	
Share capital according to the Company's articles of association	1.894.462	100,00%	1.894.462	100,00%
Own shares	(144.462)	-7,63%	0	0,00%
Share capital according to the financial statements	1.750.000	92,37%	1.894.462	100,00%

One vote is attached to each share of the nominal value of one Icelandic Krona in the Company.

According to the Limited Liability Companies Act the Company is required to retain amounts corresponding to 25% of the nominal value of shares in a statutory reserve that is prohibited to be distributed as dividends to shareholders. Amounts in excess of 25% of the nominal value of shares are at the Company's disposal.

According to the Annual Accounts Act the Company is to recognise unrealised fair value income of financial assets designated at fair value through profit or loss in a restricted reserve among equity which is not distributable as dividend.

According to the Annual Accounts Act the Company is to restrict the share in profit from a subsidiary and associate in excess of dividends received.

Retained earnings consist of profit and loss of the Company not distributed as dividend or contributed to statutory reserve or other reserves. Retained earnings can be distributed to shareholders as dividends. However, solvency requirements limit the amounts the Company can pay as dividends.

23. Solvency and solvency capital requirements

23.1 Solvency

The Group's solvency is based on its equity less intangible assets, expected dividend payments and share buy-back but with subordinated bond added. The Board has set the Company's risk appetite, according to the standard rule of Solvency II, as the Group's Solvency ratio to be on the scale 1.35 to 1.70.

The board of directors' dividend proposal is in the amount of ISK 3,789 million, of which ISK 3,500 million will be paid to shareholders, taking into account own shares.

	2021	2020
Equity according to the statement of financial position	20.452.640	16.991.888
Intangible assets	(1.460.707)	(1.670.299)
Subordinated bond	3.032.821	2.889.453
Proposed dividend payment	(3.500.000)	(1.610.293)
Share buy-back plan	0	(500.000)
Other	125.957	0
Calculated solvency capital	18.650.710	16.100.750
Solvency capital requirement (SCR)	12.574.709	11.126.947
Solvency ratio	1,48	1,45

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23.2 Solvency capital requirement (SCR)

The Company's minimum solvency means that certain capital, equity, is required due to the Company's risk. Standard rule according to law no. 100/2016 is applied, whereas calculation is based on all measurable risks. How solvency requirement is divided into subcomponents of risk is specified in the following tables.

Diversification effects are deducted since it is not assumed that all risks will realize simultaneously. Adjustment for the loss-absorbing capacity of deferred taxes is deducted upon realization of risks.

Solvency capital requirement	2021	2020
Basic Solvency capital requirement (BSCR)	13.597.292	11.970.197
Operational risk	849.417	845.750
Adjustment due to deferred taxes	(1.872.000)	(1.689.000)
Total minimum solvency	12.574.709	11.126.947
Basic Solvency capital requirement (BSCR)		
Market risk	8.838.027	7.065.695
Counterparty risk	1.418.290	1.438.262
Life underwriting risk	125.400	120.113
Health underwriting risk	1.648.330	1.680.963
Non-life underwriting risk	6.832.405	6.558.263
Diversification effects	(5.265.161)	(4.893.100)
Total BSCR	13.597.292	11.970.197
Market risk		
Interest rate risk	541.198	252.195
Equity risk	7.999.272	6.070.236
Property risk	293.458	351.033
Spread risk	577.263	738.138
Foreign currency risk	261.072	200.906
Concentration risk	1.223.259	1.176.149
Diversification effects	(2.057.495)	(1.722.963)
Total market risk	8.838.028	7.065.695

24. Subordinated bond

At the end of February 2016 the Company issued subordinated bond in the nominal amount of ISK 2,500 million. The bond is classified as Tier II equity and is included in the Company's solvency. The bond bears fixed inflation-indexed interest rate of 5.25%. Its maturity is 30 years but with a prepayment option and a step-up in interest rate to 6.25% ten years after the issue date.

Changes in subordinated loan from the beginning to the end of the year.

	2021	2020
Balance at 1.1.	2.889.453	2.788.430
Accrued interest and price indexation	295.534	246.550
Paid interests	(152.167)	(145.527)
Balance at 31.12.	3.032.821	2.889.453

25. Lease liability

Lease liability development:	2021	2020
Lease liability at the beginning of the year	831.419	917.385
Lease payments of the year	(125.218)	(115.842)
Indexation for the year	36.276	29.875
Lease liability at year end	742.477	831.419

The Group's lease liability is recognized based on the provisions of leasing agreements in accordance with IFRS 16. Interest expense on lease liability for the year 2021, which is included in interest expense for the year, amounted to ISK 36 million.

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25. Lease liability (contd.)

Lease obligation further recongition:	2021	2020
Lease payments 2021		123.578
Lease payments 2022	135.271	129.255
Lease payments 2023	141.486	135.193
Lease payments 2024	147.985	141.404
Lease payments 2025	154.784	147.900
Lease payments 2026	149.035	142.459
Lease payments 2027	11.877	11.364
Discounted payments total	740.438	831.153
Unrecognized interest expenses	2.039	266
Lease obligation according to statement of financial position	742.477	831.419

26. Technical provision

Technical provision at year-end is determined as the best estimate in accordance with provisions of chapter XIV in law on insurance operations no. 100/2016. Technical provision is the sum of best estimate of financial liabilities for insurance contracts plus risk premium.

	2021	2020
Technical provision (total):		
Unearned premiums	8.235.659	7.866.665
Claims provision	21.135.603	21.261.047
Risk margin	915.147	945.256
Total technical provision	30.286.409	30.072.968
Reinsurers' share:		
Unearned premiums	149.908	141.822
Claims provision	992.042	708.905
Total reinsurers' share	1.141.950	850.727
Technical provision, net of reinsurance:		
Unearned premiums	8.085.752	7.724.843
Claims provision	20.143.561	20.552.142
Risk margin	915.147	945.256
Total technical provision, net of reinsurance	29.144.460	29.222.241

Unearned premiums represent the Company's estimated amounts of the proportion of the duration of each policy issued that extends into periods beyond the reporting date.

Claims provision is estimated by actuarial methods based on unsettled claims at year-end. The expected cash flow is calculated for unsettled claims plus settling cost, estimated price changes and discounting future cash flow for claim settling using interest rate issued by supervision authorities. Claims provision covers claims which have been reported to the Company and as well as for claims incurred but not reported at year-end to the Company or not reported adequately.

Risk margin is an evaluation of the cost of providing an amount of eligible own funds equal to the SCR necessary to support the obligations over their lifetime. It is only to be paid if the Company sells its insurance portfolio fully or partly.

Claims provision development of prior years during the year 2021	Total	Reinsurers' share	Own share
Claims provision from prior year	21.261.047	(708.905)	20.552.142
Payments of claims from prior years	(10.702.960)	564.412	(10.138.547)
New claims due to claims from prior years	(11.271.493)	188.577	(11.082.916)
Financial income net of unwinding of present value of claims	49.804	0	49.804
Fair value change due to claims from prior years	(663.602)	44.084	(619.518)

Development of claims provision due to prior years was negative during the year in the amount of about ISK 660 million or -3,1% of claims provision as at the end of prior year. Development of claims provision net of reinsurance was negative during the year in the amount of about ISK 620 million or -3,0% of claims provision as at the end of prior year.

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Claims during the year 2021

	Total	Reinsurers' share	Own share
Payments of claims incurred during the year	6.656.445	(74.763)	6.581.682
Claims provision due to claims incurred during the year	9.864.110	(803.465)	9.060.645
Total claims incurred during the year	16.520.554	(878.228)	15.642.326

Claims provision due to claims incurred during the year is the present value of the best estimate according to chapter XIV in law no. 100/2016 on insurance operations.

Financial income from insurance operation in 2021

Calculated financial income from insurance operation	163.186
Financial income net of unwinding of present value of claims provision	(49.804)
Financial income from insurance operation due to claims incurred during the year	113.381

Financial income from insurance operation is calculated each month. It is calculated as weighted average required rate of return each month according to yield curve from regulator, on own technical provision. Financial income net of unwinding of present value of prior years claims are calculated as interest from cash flows of claims from prior years with additional interest on average claims provision for the year due to claims from prior years.

Claims provision development of prior years during the year 2020

	Total	Reinsurers' share	Own share
Claims provision from prior year	18.602.906	(926.217)	17.676.689
Payments of claims from prior years	(9.874.641)	347.574	(9.527.066)
New claims due to claims for prior year	(12.373.700)	670.718	(11.702.983)
Financial income net of unwinding of present value of claims	592.475	0	592.475
Fair value change due to claims from prior years	(3.052.959)	92.075	(2.960.884)

Development of claims provision due to prior years was negative during the year in the amount of ISK 3 billion or -16,4% of claims provision as at the end of prior year. Development of claims provision net of reinsurance was negative during the year in the amount of ISK 3 billion or -16,8% of claims provision as at the end of prior year.

Claims during the year 2020	Total	Reinsurers' share	Own share
Payments of claims incurred during the year	7.342.507	(185.812)	7.156.695
Claims provision due to claims incurred during the year	8.887.347	(38.188)	8.849.160
Total claims incurred during the year	16.229.854	(223.999)	16.005.855

Claims provision due to claims incurred during the year is the present value of the best estimate according to chapter XIV in law no. 100/2016 on insurance operations.

Financial income from insurance operation in 2020

Calculated financial income from insurance operation	127.742
Financial income net of unwinding of present value of claims provision	(592.475)
Financial income from insurance operation due to claims incurred during the year	(464.733)

Financial income from insurance operation is calculated each month. It is calculated as weighted average required rate of return each month according to yield curve from regulator, on own technical provision. Financial income net of unwinding of present value of prior years claims are calculated as interest from cash flows of claims from prior years with additional interest on average claims provision for the year due to claims from prior years.

27. Accounts payable and other liabilities

	2021	2020
Accounts payable	176.556	639.622
Income tax payable	510.801	0
Liability from reinsurance operation	118.744	107.302
Other liabilities	1.903.346	1.607.590
Accounts payable and other liabilites	2.709.447	2.354.515

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28. Financial instruments

28.1 Classification of financial instruments

The Group's financial assets pertain to the following categories of financial instruments:

31 December 2021 **Financial assets**	Financial assets at fair value	Loans and receivables	Total	Fair value
Shares and share funds	16.536.428		16.536.428	16.536.428
Debt instruments and other securities	26.922.149		26.922.149	26.922.149
Accounts receivables and other receivables		8.202.754	8.202.754	
Cash in escrow accounts and restricted cash		232.368	232.368	
Cash and cash equivalents		1.552.903	1.552.903	
Total financial assets	43.458.577	9.988.025	53.446.603	
31 December 2020				
Financial assets				
Shares and share funds	14.469.327		14.469.327	14.469.327
Debt instruments and other securities	24.369.263		24.369.263	24.369.263
Accounts receivables and other receivables		8.496.361	8.496.361	
Cash in escrow accounts and restricted cash		232.368	232.368	
Cash and cash equivalents		1.575.825	1.575.825	
Total financial assets	38.838.589	10.304.554	49.143.143	

The carrying amount of other financial assets reflects their fair value.

28.2 Fair value hierarchy

The following table discloses financial assets at fair value or held-to-maturity according to valuation techniques. The valuation techniques are separated into three levels based on the significance of the assumptions made in determining fair value. The levels are as follows:

Level 1: Quoted price in an active market for identical assets.

Level 2: Fair value is not based on quoted price in an active market (level 1) but on inputs that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Financial assets for which there is not an active market are classified into level 2. The fair value assessment is based on recent transactions between unrelated parties or bid prices of unrelated parties. Comparison to smiliar financial assets is also applied.

Level 3: Fair value measurement is based on significant inputs other than market value. Fair value measurement of financial assets classified as level 3 is based on inputs such as valuation from fund managers of investment or institutional investment funds, put options or the Company's valuation based on financial results or comparison to other similar financial assets.

For fair value basis see note 32.13

Group 31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value	30.034.097	1.564.072	11.860.408	43.458.577

Group 31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value	28.607.208	1.883.448	8.347.933	38.838.589

Changes that fall under level 3 in the year are specified as follows:	2021	2020
Balance at 1.1.	8.347.933	7.077.562
Purchased	3.793.793	2.620.359
Sold / Repayments	(2.078.438)	(825.995)
Moved to level 1	(266.542)	(679.471)
Interest and fair value changes*	2.063.663	155.479
Balance at 31.12	11.860.409	8.347.933

*Thereof is ISK 106 million realized and unrealized is ISK 1,958 million. Interest and fair value changes is recorded among changes in fair value in the statement of profit and loss.

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29. Risk Management

29.1 Risk management in general

The Group has implemented a policy for coordinated risk management. Its purpose is to ensure that the Group has an effective system of risk management that includes, among other things, analyzing, measuring, controlling and monitoring the Group's risks. The objective of the policy is to set and define a clear and straightforward manner of risk policies, principles, governance structures, risk appetite and risk management systems, including the Group's rights to decision-making.
The Group's risk policy is only to take on risks it understands, identifies, detects, evaluates, manages, meets and monitors; and are profitable and efficient.

The Board decides the coordinated risk management framework and written risk management policy. The board is responsible for ensuring implementation of risk policy and that it is followed. The Board sets the risk appetite, including the Group's criteria, objectives and targets, as well as placing the CEO's framework in accordance with the Board's approved policy. The Board has set the Company's risk appetite, according to the standard rule of Solvency II, as the Group's Solvency ratio to be on the scale 1.35 to 1.70.
One of the Board's sub-committees is the Risk Committee. It is appointed by the Board and answers directly to the Board. The Risk Committee's role is to advise the Board and to assist in carrying out tasks related to risk management, internal control and compliance.

The CEO is responsible for the effective implementation of the Group's risk policy and that it is followed. The CEO shall provide information to the Board on the Group's risk profile which is close to the risk appetite limits and inform the Board without delay if risk taking exceeds the risk appetite.

Risk management is one of the key functions in operation of an insurance company according to Act no. 100/2016 on insurance activities. Risk management department of VÍS executes the clauses on management of risk. The Risk management department ensures that management is included with the Group‘s risk management system, including policies and risk appetite, assists the Board and other divisions in the effective operation of risk management systems, monitors the Group‘s overall risk profile and manages own risk and solvency assessment.

The Group's policy on equity and dividends is to ensure it has sufficient equity to fulfill its commitments and meet solvency capital requirements despite possible losses.
Equity (and other recognised solvency components) needs to be sufficient so the Group can fulfil its commitments and comply with solvency capital requirements according to Act. no. 100-2016, section XVI, despite losses.

Capital risk is the risk that the Group‘s equity is insufficient to meet these requirements. Equity control is to manage this risk factor.
The Board sets targets for its solvency ratio as a part of the risk appetite for the Group, including both upper and lower limits.

Calculation of the Company's solvency capital requirement (SCR) is risk based and takes into account all the main risks applicable to insurance companies. The model (standard formula), upon which the calculations are based, assesses these risks based on 99.5% value at risk (VaR). Meaning that the probability of companies not being able to fulfill their capital requirement in the next 12 month period is 0.5%.
The Group's solvency consists of its shareholders equity, adjusted for items that are not permanently accessible capital in its operations, e.g. intangible assets and expected dividend payments, but including subordinated bond.

29.2 Own risk- and solvency assessment (ORSA)

The purpose of own risk and solvency assessment (ORSA) is to simplify the Group's optimization of solvency. The objective of the ORSA is to inform how much solvency the Group needs compared to current and future risk-taking. ORSA informs the Board, directors and others relevant on the Group's risk profile, solvency need and risk factors at any time and thus enabling rational and well-implanted decisions regarding setting the Group's policy and risk-taking.

ORSA is a continuous key process of the Group's operations and is inherent in its activities and thus enhances the understanding of the relationship of the Group‘s risk profile, solvency and capital requirements for the shorter and longer term.

The ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short- and long term risks which insurance company faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times. The Group has implemented an ORSA-policy which has been approved by the Board. For further details on solvency and solvency capital requirements, see notes 23.1 and 23.2.

29.3 Market risk

Market risk is the risk of loss or unfavorable change in financial position, which arise directly or undirectly from fluctuation of market value of assets, provisions and financial instruments.

Strategy for controlling market risk is done predominantly by revision of capital structure policy investment strategy and composition of assets in a portfolio. The strategy is based on the risk appetite of the Group, expectation of return from assets and historical analyses on return. Current portfolio, environment and restriction are taken in to account.

Primary market risk which are specially monitored:

- Interest rate risk
- Equity risk
- Foreign exchange rate risk

29.4 Interest rate risk

Interest rate risk is risk of loss from fluctuations in fair value of financial instruments from change in interest (required rate of return). Duration of portfolio is in most cases not the same as duration of technical provision and therefore interest rate risk can occur in the operation of the Group.

Interest sensitivity analysis

The following table discloses the effect that 50 and 100 bp increase in interest on interest bearing assets would have on income and equity at the reporting date. The sensitivity analysis is presented for interest bearing assets with floating rate interests and is based on the presumption that all other variables remain constant. The sensitivity is presented post-tax and therefore reflects the effect on profit or loss and equity.

The effect on profit or loss and equity is the same since value changes of the underlying financial instruments is in no instances recognised directly in equity. A positive number indicates an increase in profit and equity. Decrease of interest rates would have the same effect in the opposite direction.

	31.12.2021		31.12.2020	
	50 bp	100 bp	50 bp	100 bp
Inpact on profit or loss and equity	6.729	13.458	7.723	15.447

29.5 Equity risk and other risk of market securities

Equity risk is the risk of potential loss of capital due to changes in price of shares in other companies.

The Group invests in shares in other companies to maximize expected returns and diversify risk to level out fluctations in the portfolio. Limits are defined in the company's investment policy to establish diversification in the equity portfolio and manage equity risk. Maximum limit is set on weight on equities as total of investment assets, limits on both listed and unlisted domestic equities, limits on funds as percentage of portfolio and limits on specific investments.

Listed and unlisted shares in other companies are measured at fair value and therefor fluctuations in share prices have considerable effect on investment income. The management of the Group constantly follows developments of markets to be able to react to changes in equity risk.

The Group also invests in market debt securities to spread risk and even fluctuations in accordance with the Group policy on investments.

	31.12.2021	31.12.2020
Shares and share funds at fair value through profit or loss	16.536.428	14.469.327
Debt instruments and other securities at fair value through profit or loss	26.922.149	24.369.262

The effect of 5% and 10% increase in the market value of shares and debt securities on profit or loss is disclosed below, net of 20% income tax. Accordingly 5% and 10% decrease in market value would have the same effect but in the opposite direction.

	31.12.2021		31.12.2020	
	5%	10%	5%	10%
Shares - impact on profit or loss	826.821	1.653.643	723.466	1.446.933
Debt securities - impact on profit or loss	1.076.886	2.153.772	974.770	1.949.541

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29.6 Foreign exchange rate risk

Foreign exchange rate risk is the risk of loss from fluctuations in exchange rates of foreign currencies. It arises if there is a mismatch in position of assets and liabilities in individual foreign currencies. Part of the Groups securities and technical provision are in foreign currencies. When limits are set for weight of assets in currencies in investment policies the foreign exchange rate risk of the Group is taken into the account.

The majority of the Group's assets and liabilities are denominated in ISK, but the Group holds also some foreign financial assets. Following are information regarding those foreign currencies that have most impact on the Group´s operations. Exchange rates and calculation of volatility disclosed is based on the average exchange rates of the Central Bank of Iceland during the year. Year-end rate is according to mid-exchange rate according to Íslandsbanki.

	Year-end exchange rates		**Average exchange rates**		**Annual change**
Currency	2021	2020	2021	2020	2021
USD	130,39	127,49	127,05	135,27	2,3%
EUR	147,40	156,30	150,19	154,52	-5,7%
GBP	175,54	172,96	174,71	173,59	1,5%
DKK	19,82	21,01	20,20	20,73	-5,7%
NOK	14,76	14,88	14,78	14,42	-0,8%
SEK	14,41	15,59	14,81	14,75	-7,6%

Foreign exchange rate risk as at 31.12.2021	Assets	Liabilities	Net position
USD	1.815.707	2.212	1.813.495
EUR	1.194.028	169.776	1.024.252
GBP	679.218	383.337	295.881
DKK	14.168	0	14.168
NOK	1.012.245	0	1.012.245
SEK	580.828	0	580.828
Total	5.296.194	555.325	4.740.869

Foreign exchange rate risk as at 31.12.2020	Assets	Liabilities	Net position
USD	1.613.686	182.697	1.430.989
EUR	970.112	218.341	751.771
GBP	1.212.180	578.958	633.222
DKK	42.501	0	42.501
NOK	492.078	0	492.078
SEK	584.546	0	584.546
Total	4.915.103	979.996	3.935.107

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29.6 Foreign exchange rate risk (contd.)

Sensitivity analysis

The following table discloses the effect of 5% and 10% strengthening of ISK to the respective foreign currencies on profit or loss and equity. The analysis is based on the carrying amount of assets and liabilities denominated in those currencies at the reporting date. The table above discloses those foreign assets and liabilities on which the sensitivity analysis is based, which are mainly foreign denominated securities. The sensitivity analysis is based on the presumption that all other variables remain constant. It is based on post-tax amounts, 20% income tax, and reflects the impact on profit or loss and equity. The negative impact on profit or loss and equity is the same since value changes of the underlying financial instruments are in no instances recognised directly in equity.

Impact on profit or loss and equity

	31.12.2021		31.12.2020	
	5%	10%	5%	10%
USD	72.540	145.080	57.240	114.479
EUR	40.970	81.940	30.071	60.142
GBP	11.835	23.670	25.329	50.658
DKK	567	1.133	1.700	3.400
NOK	40.490	80.980	19.683	39.366
SEK	23.233	46.466	23.382	46.764

Weakening of ISK to the above mentioned foreign currencies would have positive impact on profit and equity.

29.7 Counterparty risk

Operation of the Group is based on two foundations, insurance- and financial operation and counterparty risk can be found in both pillars.

Primary counterparty risk components are:

- Risk of loss or unforseeable change in financial position due to counterparty's lower rating
- Risk of lower rating of bond issuer (spread risk)
- Risk that counterparty can't comply with the obligation that contracts specify

The main source of counterparty risk is:

- Primary insurance
- Reinsurance
- Lending
- Investments in debt securities
- Bank deposits

The Group regularly monitors its counterparty risk.

Counterparty risk is as follows:

	31.12.2021	**31.12.2020**
Securities, credit rating A	8.273.651	5.355.105
Securities, credit rating BBB	3.607.281	4.292.264
Other market securities	16.272.035	15.725.909
Collateralised loans and other loans	1.220.802	1.437.894
Account receivables	6.516.721	6.496.024
Claims on reinsurers	65.430	35.856
Other receivables	697.599	794.811
Cash and cash equivalents	1.552.903	1.575.825
	38.206.422	35.713.689

The Group's maximum exposure to counterparty risk corresponds to the carrying amounts disclosed above.

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29.8 Liquidity risk

Liquidity risk is the risk that the Group will not have enough liquid assets or not being able to sell assets in time and therefore encounter difficulty in meeting its financial obligations when due.

Liquidity position, its development as well as the impact of market conditions and future outlook is monitored on a regular basis. Particular emphasis is placed on that there are always adequate liquid assets to meet expected payments of both claims and other liabilities. The Group's expected payments are very well secured by its liquidity position. The Group's policy on liquid assets is to have minimum cash and cash equivalents at each time and that large part of assets can be sold immediately.

Expected cash flows of financial liabilities is specified as follows:

	Within one year	2023	2024 +	Total
31.12.2021				
Claims provision	10.452.951	5.705.279	4.977.372	21.135.602
Subordinated bond	158.646	158.646	7.195.721	7.513.012
Lease liability	166.175	166.222	498.148	830.546
Accounts payable and other short-term liabilities	2.709.447	0	0	2.709.447

	Within one year	2022	2023 +	Total
31.12.2020				
Claims provision	9.769.939	6.034.265	5.456.843	21.261.047
Subordinated bond	150.099	150.099	6.386.363	6.686.562
Lease liability	158.137	158.137	632.159	948.434
Accounts payable and other short-term liabilities	2.354.515	0	0	2.354.515

29.9 Insurance risk

Insurance risk is the risk of loss or unfavorable change in insurance liabilities due to unadequate pricing or measurement of claims provision. Insurance risk comprises of life-, health- and casualty insurance risk which are divided into sub-categories.

Insurance classes - premiums earned	**2021**		**2020**	
Property insurance	4.941.084	21,4%	4.848.174	21,6%
Marine and cargo insurance	574.670	2,5%	505.547	2,2%
Mandatory vehicle insurance	8.574.297	37,2%	8.107.500	36,0%
Other vehicle insurance	3.594.823	15,6%	3.401.054	15,1%
General liability insurance	1.426.880	6,2%	1.371.594	6,1%
Accident and health insurance	2.288.735	9,9%	2.345.555	10,4%
Life and health insurance	1.576.212	6,8%	1.489.228	6,6%
Reinsurance	64.382	0,3%	427.145	1,9%
	23.041.082	100,0%	22.495.797	100,0%
Domestic and foreign operations - premiums earned				
Domestic operations	22.976.700	99,7%	22.068.652	98,1%
Foreign operations	64.382	0,3%	427.145	1,9%
	23.041.082	100,0%	22.495.797	100,0%

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Notes

29.9 Insurance risk (contd.)

Technical provision risk is the risk that the obligation of the Group related to its insurance contracts is underestimated, both for unearned premiums and claims provision. Unearned premiums liability is the estimated amounts due to unexpired policies. Claims provision is the estimated liability due to incurred but unsettled losses, both reported and unreported. Estimated value of technical provision is based on the methods of Solvency II.

Sensitivity analysis

The following table discloses the impact of 1% change in loss amounts, claims provision and unearned premiums on the Group's profit or loss and equity.

	2021	2020
Loss amounts	130.641	151.755
Claims provision	161.148	164.417
Premiums, based on no change in loss and cost ratios	5.174	16.112

The main risk factors involve mistakes in handling of and settlement of claims, wrong decision making or fraud by employees. There is also risk that claimant gives wrong information or exaggerates the effects of the the claim, i.e. insurance fraud. This also includes administration of sensitive personal information and contractors will go beyond their purview.

Reinsurers' risk is among other things the risk that reinsurers doesn´t meet its obligations of paying their share of losses, the reinsurance amont is not adequate, there is a mismatch between primary insurance and reinsurance and different interpretation between the insurer and the reinsurer regarding the reinsurance agreement. The Group's reinsurance policy stipulates that its reinsurers shall have a rating from an international rating agency. Limits are applied regarding reinsurance from each individual reinsurer. Ratings requirements depend on the estimated settlement period of losses in each contract. In addition to that the number of reinsurers in each contract and maximum risk exposure of each reinsurer is based on that reinsurer's rating. The following table discloses the disaggregation of premiums to reinsurers based on their rating for the year 2021 and an estimation for the year 2022.

	2022	2021
AA+	0,3%	0,0%
AA-	60,2%	65,1%
A+	26,0%	21,1%
A	5,9%	5,4%
A-	7,5%	8,5%
	100,0%	100,0%

29.10 Operational risk

Operational risk consists of all risks that are related to regular operations of the Group and is defined as a risk of direct or indirect loss due to insufficient or faulty internal systems or working procedures, conduct of employees or external factors, such as legal risk. The Group policy is to reduce operational risk, taking the cost of preventive proceedings into account.

The main factors of operational risk are:

• Organisational structure
• Documentation and contracting
• Information technology
• Employees
• External events

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29.11 Internal management and control

The Group's policy is to have well organized and reliable internal control framework that is integrated part of its enterprise risk management. The framework is articulated by the Board, its management and employees and is designed to give reasonable assurance of the achievement of the Groups's objectives on:

• Effectiveness and efficiency of operations (operational goal)
• Reliability of reporting (objective of correct information)
• Compliance with laws and regulations (objective on following rules)

To achieve those objectives in the Group's effective internal control system the following five components work to support its mission, strategies and business objectives:

• Control Environment
• Risk Assessment
• Control Procedures
• Information & Communication
• Management Controls

The policy is based on COSO's (Committee of Sponsoring Organisations of the Treadway Commission) framework on Internal Control (Internal Control – Integrated Framework) published in May 2013.

The Internal management and Control can be witnessed in all practices, methods, codes of conduct and policies on human resources and is at the same time an integrated part of daily business and operation. Internal management and control are subject to human limitations such as mistakes and intentional override of the Group´s rules, as well as other unpredictable factors.

29.12 Combined ratio and operating ratio

Combined ratio is the sum of incurred losses, operating expenses and net reinsurance cost as a proportion of earned premiums. Operating ratio is calculated as the combined ratio, except that the ratio's denominator also includes investment income and other income from insurance operations. Claims ratio, operating ratio and reinsurers' cost ratio are calculated as proportion of premiums for the year.

The following table discloses combined ratio, operating ratio and other key figures of the insurance operations for the past five years.

	2021	2020	2019	2018	2017
Net claims ratio	73,2%	87,2%	75,4%	76,7%	73,4%
Claims ratio	74,9%	85,6%	75,3%	76,7%	68,2%
Operating cost ratio	23,1%	22,2%	21,3%	21,2%	21,1%
Reinsurers' cost ratio	-0,8%	2,0%	0,9%	0,8%	6,0%
Combined ratio	**97,1%**	**109,8%**	**97,5%**	**98,7%**	**95,3%**
Investment income ratio	0,7%	0,6%	1,3%	5,0%	4,9%
Ratio of other income from insurance operations	0,3%	0,3%	0,4%	0,5%	0,7%
Operating ratio	**96,2%**	**108,9%**	**95,9%**	**93,5%**	**90,3%**

30. Related parties

Related parties are those parties, or their companies, that have a significant influence on the Group, whether directly or indirectly. Related parties are large shareholders, board members and members of the boards sub-committees, key management personnel and their families, as well as other dependent parties directed by or under the influence of the Group. Transactions with related parties have been on the same terms as with unrelated parties. Salaries and benefits of the board and management are disclosed in note 9.

Transactions and balances with related parties are specified as follows:

	Income	Expenses	Assets	Liabilities
2021				
Board of directors and key management	20.527	14.871	451.343	0
2020				
Board of directors and key management	25.457	10.672	439.836	0

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31. Events after the reporting date

No events have occurred after the end of accounting period that require the Group to change this financial statements.

32. Significant accounting policies

The accounting policies as set out below have been applied consistently for all periods to the financial statements and for all the Group's entities. The Group has adopted all international financial reporting standards, interpretations and changes to standards adopted by the European Union that are applicable to the Group and effective as at 1 January 2021. The Group has not adopted standards, amendments to standards or interpretations effective for periods starting later than 1 January 2021 where early adoption is permitted.

New standards, interpretations and amendments to standards

The International Accounting Standards Board adopted an amendment to IFRS 4 'Insurance contracts' in September 2016, giving insurance companies option of either modifying the handling of certain contracts entered into under IFRS 9 'Financial Instruments', or suspending adopting entirely, subject to certain conditions, until 1. January 2023. Therefore, the IAS 39 'Financial Instruments: Recognition and Measurement' standard will remain in force. A new standard for insurance contracts, IFRS 17, will then come into effect, and both standards will be implemented simultaneously. The Group has decided to postpone the adoption of the new standard IFRS9 *Financial instruments* until 1 January 2023.

The Group believes that the valuation of financial instruments under IAS 39 is an appropriate approximation of fair value and estimates that changes in evaluations between IAS 31 and IFRS 9 will be insignificant.

IFRS 16 *Leases* is effective as from the year 2019. According to the standard all lease contract are to be recognised in the balance sheet of lessees, except that lessees can apply an exception made for leases where the leased item´s value is immaterial or if the lease term is shorter than or equal to 12 months. The present value of contractual lease payments of lease contracts currently classified as operating leases will be recognised as liabilities but a corresponding right of use of the leased items capitalised among assets in the balance sheet. The right of use assets will be amortised and interest expense recognised on the lease liability. The Company is the lessee in lease contracts for housing. For further information see notes 15 and 25.

IFRS 17 *Insurance Contracts* was issued in May 2017. The standard is effective as from the year 2023, if endorsed by the Europian Union. Due to the short period of time since the standard was issued it is not yet clear how much effect it will have on the Company´s financial statements, i.e. its impact has not been fully assessed.

The notes to the financial statements are prepared based on relevance and materiality with respect to the needs of users of the financial statements. Therefore information that is considered neither relevant nor material for the user of the annual financial statements is not disclosed.

32.1 Group

The Group's financial statements include the financial statements of the Parent Company and its subsidiary. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The financial results of subsidiaries acquired or sold during the year are included in the financial statements from the date of acquistion to the date of disposal, as applicable.

The consolidated financial statements include the revenue, expenses, assets and liabilities of the Group from transactions with third parties. Intercompany transations are eliminated in the consolidated accounts. When applicable the financial statements of subsidiaries are modified to align them with the accounting policies of the Group.

If shareholding in a subsidiary is less than 100% a non-controlling interest in profit or loss and equity is recognised. However, since non contolling interest is immaterial it is not presented separately in the financial statements.

32.2 Associates

Associates

Associates are those companies in which Company has significant influence, but not control, over their financial and operating policy. Significant influence is usually present when the Company has 20% to 50% of voting rights, including any potential exercisable voting right. Interest in associates are accounted for using the equity method.

Equity method

Equity method is an accounting policy whereby investments in associates are initially recognised at cost and the carrying amount subsequently adjusted in accordance with any changes in the Company´s share of the net assets of the associates. The Company´s share of profit of an associate is recognised as part of the Company´s profit or loss. In case the Company´s share of loss of an associate is in excess of its carrying amount the Company does not recognise any further share of loss unless it has issued guarantees on behalf of the associate or financed its operations. In subsequent periods the Company does not recognise any share of profit of associates until unrecognised share of loss has been equalised.

32.3 Goodwill

Goodwill that arises from acquisitions is recognised on the date the Company achieves control of the acquired company. Goodwill is the difference between the acquision price of a subsidiary and the acquirer's interest in the net assets of the subsidiary, at fair value at the acquisition date. Goodwill is not amortised but tested annually for impairment or more often if there is any indication of impairment. For the purpose of impairment testing goodwill is allocated to cash-generating units. Those cash-generating units to which goodwill has been allocated are tested for impairment. Impairment has occured if carrying amount exceeds recoverable amount. Impairment is first recognised by the expense of goodwill and thereafter as a reduction of the carrying amount of other assets of that cash-generating unit. Impairment losses of goodwill are not reversed in later periods.

32.4 Customer relationships

Customer relationships, recognised upon acquisition of operations, are amortised over the estimated useful life, which is 10 years.

32.5 Revenue

Revenue is recognised at the fair value of the consideration received or receivable after deduction of discounts.

Premiums
Premiums recognised as income in profit or loss comprise the premiums contracted during the year including premiums transferred from prior year but excluding next year's premiums, which are recognised as unearned premiums. Unearnd premiums in the balance sheet form the part of premiums due to insurance risk during the period which belongs to unexpired insurance policies at year end.

Dividend and interest income
Dividend income from investments is recognised on the date when the right to dividend is established.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is recognsied as accrued based on effective interest rate. Effective interest rate is the rate of interest that discounts the expected cash flows or revenue over its estimated life so as to equal the carrying amount of the financial asset.

32.6 Expenses from insurance operations

Claims expensed in profit or loss consist of claims incurred during the year as well as the effect of reassessment of claims from previous years. Claims provision in the balance sheet consists of total amount of reported unsettled claims as well as actuarial estimation of incurred but unreported claims.

32.7 Insurance contracts

The Group issues contracts that transfer both financial and insurance risk from its customers to the Group.

Definition of insurance contracts

Insurance contracts are contracts under which the insurer accepts, in accordance with contractual provisions, to compensate the policyholder for financial loss incurred due to insured event.

The insured event is uncertain, it is not known if or when it occurs, and generally its financial consequences are not known beforehand.

Classification of insurance contracts

Casualty insurance contracts consist of third party liability contracts, accident contracts and property insurance contracts including marine insurance contracts.

Third party liability contracts protect the customer for the risk of causing harm to third parties as a result of their legitimate activities.

Accident insurance contracts compensate the insured own bodily injuries in accordance to contractual provisions.

Property insurance contracts compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers operating in businesses could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business.

Life insurance contracts are related to life of human beings, for instance death or living beyond the insurance period. Premiums are recognied as revenue during the policy life. Damages are expensed when the insured event occurs.

Investments where investment risk is borne by the life-insurance policyholder

Investments where the investment risk is borne by the policyholder are financial assets of the Company selected by the investment and life-insurance policyholders. The policyholders bear the investment risk in those investment life-insurance policies. Investment for the benefit of life-insurance policyholders is recognsied as a liability in the balance sheet to the same amount.

Technical provision

At each reporting date the Group evaluates its technical provision so as to conclude on if it is sufficient to cover the Group's liabilites due to written insurance contracts. The evaluation is based on estimated future cash flows of the technical provision. All changes in technical provision are recognised in profit or loss. The evaluation takes into account all expected contractual cash flows due to claims and claims expenses.

Reinsurance contracts

The Group enters into reinsurance contracts with the purpose of mitigating its risk. Reinsurance contracts are either proportionl or bearing all risk if insurance loss amount due to a loss event exceeds prior determined contractual amount.

Claims on reinsurers due to premiums and claims are recognised as reinsurance assets. It consists of claims on reinsurers due to their portion of claims in accordance with reinsured insurance contracts as well as their portion of the claims provision. Liabilities due to reinsurance consist of reinsurers's share of premiums due to reinsurance contracts, expensed in profit or loss on renewal of reinsurance contracts.

32.8 Foreign currencies

Foreign exchange difference is recognised in profit or loss as incurred.

32.9 Financial expenses

Financial expenses are expensed in profit or loss as incurred.

32.10 Income taxes

Income taxes expensed consists of current taxes and deferred tax.

Current taxes

Current taxes are the expected taxes payable on taxable income for the year, and any adjustment to taxes payable in respect of previous years. Taxable income for the year is generally different from profit or loss for the year according to the financial statements. Calculated tax is based on tax rates enacted at the reporting date.

Deferred income tax

Deferred income tax is due to temporary difference between taxable income and profit or loss according to the financial statements. The reason is that the Group's tax base is based on premises different from the financial statements. Deferred tax is not recognised on non-deductible goodwill. Deferred tax is calculated based on the tax rate enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the tax asset can be utilised in the future.

Deferred income tax is expensed in profit or loss unless it is related to items recognised in other comphrensive income or directly in equity. If so the tax is also recognised in other comphrensive income or equity.

32.11 Operating assets

An operating asset is recognised when it is probable that economic benefits embodied in the asset will flow to the Group and its cost can be measured reliably. Operating assets are recognised at cost value less accumulated depreciation and impairment. The cost of operating assets consists of the purchase price and all directly attributable cost necessary to make the asset capable of generating revenue.

Operating asset is recognised at cost less accumulated depreciation and impairment.

Depreciation is recognised on a systematic bases over the expected useful life of the asset, taking into account its estimated residual value. Depreciation method, expected useful life and residual value is reviewed at least annually.

Gain or loss on sale of operating assets is calculated as the difference between the sale price and carrying amount. It is recognised in profit or loss as part of other income.

32.12 Software

Software is recognized at cost less accumulated amortisation and impairment. The cost price consist of the purchase price and all direct cost to get the software in to use. Software is amortised using the straight-line method over 3 to 10 year from the date it is taken into use.

32.13 Financial assets

The Group's financial assets consist of financial assets at fair value through profit or loss, financial assets held-for-sale, financial assets held-to-maturity and loans and receivables. Financial assets are recognised initially at fair value, taking into acount transaction cost incurred in the case of financial assets not recognised subsequently at fair value. Subsequent receivables to initial recognition fiancial assets at fair value through profit or loss are recognised at fair value but financial assets held-to-maturity as well as loans and receibables are recognised at amortised cost based on the effective interest rate method.

Fair value is the price in an orderly transaction to sell an asset or to transfer a liability at the measurement date. More specifically it is the price obtained on sale of assets or paid to transfer a liability in an orderly transaction between market participants.

32.13 Financial assets (contd.)

The fair value of listed securities is the corresponding listed market price at reporting date disregarding potential future sales costs.

If market prices are not listed in a stock exchange or available by broker, the fair value of a financial instrument is assessed using valuation methods, including possible recent transactions of unrelated parties, references to fair values of comparable financial assets, discounted cash flow, pricing model for options or other valuation methods indicating reliable estimates of other trades in the market.

When discounted cash flow method is used for fair value assessment, future cash flow used is the managers' best estimates and yields used are market rates on equivalent financial instruments on settlement date. When using other pricing models, market information on reporting date are used. The fair value of unlisted equities is assessed, if possible, using appropriate P/E ratio for comparable listed companies and adapted to special circumstances of the issuer.

Effective interest rate

Effective interest method consist in calculating the repayment value of a financial asset or liability and allocating interest income or expenses over the life of the instrument. Effective interest rate is the rate that discounts the expected cash flows or income over the estimated life of a financial instrument, or a shorter period if relevant, so as to equal the carrying amount of the financial asset or liability in the balance sheet.

Interest income is recognised in accordance with effective interest rate for all interest bearing financial instruments except for those designated as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss if they are acquired with the intention of short-term profit taking. The same applies for all other financial assets the Group designates as at fair value through profit or loss.

Fair value changes of financial assets consist of changes in fair value, dividend income, interest income and indexation.
A financial asset can be designated as at fair value through profit or loss at initial recognistion if one of the following conditions are fulfilled:

- the designation reduces or eliminates measurement or recognistion mismatch.
- the financial asset is a part of a portfolio of financial assets or liabilities, or both, and is recognised at fair value in accordance with the Group's documented risk management policy or investment policy.
- the financial asset is a part of a contract containing one or more embedded derivatives and it is permitted to recognise the hybrid instrument (asset or liability) at fair value through profit or loss.

Financial assets held-for-sale

Financial assets classified as available-for-sale are initially recognised at fair value, plus any direct transactions costs. Subsequently those investments are recognised at fair value with fair value changes, except for any impairment and interest income, in other comprehensive income and in a restricted equity account. Upon sale unrealised fair value changes among equity are transferred to profit or loss. Interest income and impairment are recognised, when incurred, in profit or loss.

Financial assets held-to-maturity

Financial assets are classified as held-to-maturity investments when the Group has the positive intent and ability to hold investments in debt securities to maturity. Held-to-maturity investments are recognised at amortised cost based on effective interest rate, less any impairment.

When more than an insignificant portion of investments classified as held-to-maturity is sold or it is no longer intended to hold those assets to maturity, those financial assets are reclassified as available-for-sale.

Loans and receivables

Accounts receivable, loans and other receivables with fixed payments and not quoted in an active market, are classified as loans and receivables. Loans and receivables are recognised at amortised cost based on effective interest rate, less any impairment. Interest income on loans and receivables are recognised based on effective interest rate.

Impairment of financial assets

Carrying amount of financial assets, other than those recognised as at fair value through profit or loss, are at each reporting date reviewed for any indication of impairment. Impairment has occured if the estimated future cash flows, based on the initial effective interest rate, is lower than carrying amount. If impairment no longer exists it is reversed but only to the extent of previously recognised impairment.

If it is not possible to review individual financial assets for impairment, the portfolio to which they pertain is reviewed for impairment.

At each reporting date financial assets not at fair value through profit or loss are reviewed for possible indication of impairment. A financial asset is considered impaired if an objective event, subsequent to initial recognistion, reveals that the expected future cash flows of the financial assets will be lower than previously estimated and the effect of the loss event can be objectively determined.

Impairment assessment of each portfolio of financial assets is based on historical experience with respect to those assets, the date on which the loss could possibly be recovered and the amount of the loss. The asssessments includes management estimate as to whether current economic and loan conditions are such that the loss will be more or less than would be expected based on historical experience.

Derecognition of financial assets

The Group derecognises a financial asset if, and only if, the contractual right to the cash flows of the asset no longer exists or the risk and reward of the financial asset is transferred to a third party.

32.14 Impairment of other assets

At each reporting date management reviews the carrying amount of tangible and intangible assets for indications of impairment. If any such indication exists the recoverable amount of the asset is estimated. The recoverable amount of a cash-generating unit to which the asset belongs, is estimated if it is not possible to test the asset individually for impairment.

Recoverable amount is the higher of fair value less cost to sell and value in use. Value in use is based on estimated future cash flows, discounted at pre-tax rate of interest, where the interest rate reflects the market assessment of time value of money at each time and the risk embodied in the asset.

Intangible assets with indefinite useful life and intangible assets not ready for use are tested for impairment annually and more often if there is any indication of impairment.

If the recoverable amount of an asset is lower than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment loss is recognised in profit or loss.

A recovery of the asset, subsequent to impairment recognition, is reversed. However reversal is limited to the amount of the asset not being recognised at an amount higher than its carrying amount prior to the impairment recognition. Reversal of impairment of goodwill is prohibited.

32.15 Obligations

An obligation is recognised when the Group has legal or constructive obligation due to a past event, payment is probable and the amount of the obligation can be reliably determined.

The amount of the obligation is based on the best possible estimation of the liability at the reporting date. If the amount of the obligation is based on estimated future cash flows it is recognised at present value.

If the obligation is recoverable from a third party, the amount is recognised as an asset.

32.16 Financial liabilities and equity instruments

Classification as liabilties and equity
Liabilities and equity instruments are classified in accordance with their contractual provisions.

Equity instruments
An equity instrument is a contract that evidences residual interests in assets of a company after deduction of all its liabilities.

Guarantees

Guarantees related to financial liabilities are initially recognised at fair value. Guarantees are subsequently, except for those classified as at fair value through profit or loss, recognied at the higher of:

- the amount of the underlying liability, estimated in accordance with IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets ,*
- the amount of the original contract less accumulated amortisation in accordance with rules on revenue recognition.

Financial liabilities
The Group´s financial liabilities consist of trade and other payables. Financial liabilities are initially recognised at fair value less transaction cost. They are derecognised if the Group´s liabilities, as contractually defined, are paid, expire, discharged or cancelled.

33. Quarterly statement (unaudited)

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Premiums earned for the period	5.917.039	5.954.829	5.649.203	5.520.011	5.562.108
Premiums earned	5.745.545	5.741.143	5.462.752	5.351.816	5.366.876
Financial income	1.192.632	2.008.989	2.574.161	2.483.580	2.724.183
Other income	15.906	14.150	17.642	18.634	19.277
Total income	6.954.083	7.764.282	8.054.555	7.854.031	8.110.336
Claims incurred for the period	(4.031.616)	(4.085.104)	(4.502.380)	(4.633.307)	(4.994.729)
Claims incurred	(3.903.910)	(4.044.743)	(3.912.225)	(4.469.218)	(4.882.431)
Technical interest rate and fx rate changes of tech.provisions	(279.545)	27.450	129.360	72.931	74.497
Operating expenses	(1.695.546)	(1.225.631)	(1.386.973)	(1.429.433)	(1.446.786)
Impairment of accounts receivables and interest expenses	(91.688)	(83.070)	(100.387)	(99.667)	(152.749)
Profit before income taxes	983.394	2.438.288	2.784.331	1.928.644	1.702.867
Income taxes	(33.320)	(207.259)	(185.800)	(24.485)	109.695
Profit for the period	950.075	2.231.029	2.598.531	1.904.158	1.812.561

Claims ratio	68,1%	68,6%	79,7%	83,9%	89,8%
Net claims ratio	67,9%	70,5%	71,6%	83,5%	91,0%
Operating cost ratio	26,6%	19,0%	22,8%	24,0%	24,0%
Reinsurers' cost ratio	0,7%	2,9%	-7,2%	0,0%	1,5%
Combined ratio	**95,5%**	**90,5%**	**95,3%**	**108,0%**	**115,3%**

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34. Claims provision development (unaudited)

The table shows the Group's assessment of the final amount of claims for each claims year and how that assessment has developed between years.
Developments between years indicate the Group's ability to determine its liabilities under insurance contracts.
From the year 2014, claims provision is presented as the present value best estimate according to Act no. 100/2016.
The amounts of previous years are unchanged from previous financial statements.
It should be kept in mind that amounts are not recognized at constant prices and therefore price changes have some effect on developments between years.
In the lower table, Technical provision, net of reinsurance, the share of reinsurers has been deducted from the amounts shown in the upper table.

Total amount
in million ISK.

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	Samtals
Estimation of final claims cost											
At the end of the claims year	11.850	11.623	11.132	11.269	12.535	12.612	14.626	15.701	15.459	15.912	
One year later	12.558	10.778	12.490	12.544	13.288	14.473	15.733	17.581	14.551		
Two years later	10.712	11.058	12.541	13.025	13.721	14.829	17.390	18.242			
Three years later	10.522	10.908	12.496	13.217	13.925	15.358	17.681				
Four years later	12.137	10.882	12.580	13.140	13.906	15.760					
Five years later	11.610	10.802	12.590	13.156	13.913						
Six years later	11.599	10.748	12.401	13.333							
Seven years later	11.572	10.702	12.459								
Eight years later	11.461	10.825									
Nine years later	11.509										
Estimation of accumulated claims at year end 2021	11.509	10.825	12.459	13.333	13.913	15.760	17.681	18.242	14.551	15.912	
Accumulated payments At year end 2021	11.378	10.672	12.323	13.117	13.720	14.885	16.589	15.014	9.518	6.416	
Claims provision at year end 2021	130	153	137	216	193	875	1.093	3.229	5.033	9.496	20.554
Claims provision over 10 years											134
Technical provision for life-insurance											447
Total claims provision											21.135

Technical provision, net of reinsurance
in million ISK.

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	
Estimation of accumulated claims at year end 2021	10.732	10.811	12.336	13.255	13.904	15.744	17.137	17.737	14.517	15.221	
Accumulated payments At year end 2021	10.602	10.658	12.231	13.039	13.711	14.869	16.110	14.554	9.515	6.416	
Claims provision at year end 2021	130	153	105	216	193	875	1.027	3.183	5.001	8.805	19.690
Claims provision over 10 years											134
Technical provision for life-insurance											319
Total claims provision											20.143

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Vátryggingafélag Íslands hf.

Annex

2021

Corporate Governance Statement 2021

Vátryggingarfélag Íslands hf.

Good corporate governance provides the foundation for responsible management and well-conceived decision-making, while promoting reliable relations between shareholders, the Board of Directors, management, employees and other stakeholders. Corporate governance at VIS is about defining the roles and responsibilities of the Company's officers and directors, internally and vis-à-vis shareholders, for the purpose of assisting them in achieving their objectives. VIS places emphasis on the continuous development and strengthening of good corporate governance within the Company, and on ensuring that processes and workflows adhere to accepted international standards for best governance practices.

Exemplar of Corporate Governance

In August 2020, VIS was named an „Exemplar of Corporate Governance" by Stjórnvísi. The recognition was awarded following a formal evaluation of the working methods of the Board and management based on the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, the Confederation of Icelandic Enterprise and Nasdaq Iceland. The recognition is valid for three years. In August 2021, the recognition was renewed based on the aforementioned evaluation.

VIS is on the list of Outstanding Companies compiled by Creditinfo. Outstanding Companies are stable businesses whose operations are built on strong foundations and benefit society. VIS was also chosen as one of VR union's Model Companies of 2021. This is the third time that VIS has been recognised as a Model Company by VR. It is worth noting that in 2020, VIS was also named Company of the Year, when it achieved a top 5 ranking

Compliance with Corporate Governance Guidelines

According to the Act on Insurance Activities, VIS is required to comply with the Guidelines on Corporate Governance. The Company follows the current Guidelines on Corporate Governance (6th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederation of Icelandic Enterprise.[1] The Act on Insurance Activities, the Act on Limited Liability Companies and the Act on Securities Transactions include fur-

1) LThe Guidelines are available at www.leidbeiningar.is.

ther provisions on corporate governance, working procedures and corporate structure which in some cases go further than the Guidelines. The Guidelines provide that companies are to disclose any deviations from the Guidelines and explain the reasons for such deviations. There are no deviations from the Guidelines.

Activities of VÍS

Founded on 5 February 1989 by the merger of the Fire Insurance Association of Iceland (Brunabótafélag Íslands) and the Co-operative Insurance Association (Samvinnutryggingar g.t.), VIS is a limited liability company which operates under Act No. 100/2016 on Insurance Activities, Act No. 60/2021 on Measures Against Market Abuse and Act No. 2/1995 on Limited Liability Companies. Insurance companies are "public-interest entities" within the meaning of Article 2(1)(3)(d) of Act No. 94/2019 on Auditors and Auditing, see Article 2(1)(9) of Act No. 3/2006 on Annual Accounts, and as such have certain responsibilities. VIS is regulated and licensed as an insurance company by the Icelandic Financial Supervisory Authority. VIS has a comprehensive operating license covering both primary insurance and reinsurance and is the parent company of the life insurer Líftryggingafélag Íslands hf. (Lífís).

Clear Vision, Code of Ethics, Sustainability and Diversity

The Company's future vision is to be a digital service company that changes the way insurance works and reduces the number of losses. The Company is a dynamic force for positive change that places priority on strong prevention. This future vision now guides all decisions of the Company in an effort to ensure that our customers suffer fewer losses. The Company's promise to its customers is to be someone they can count on through life's uncertainties.

The Board of Directors reviewed and endorsed the Company's Code of Ethics in November 2021. The Code of Ethics is a guide for employees on how they should conduct their relationships with customers, co-workers, regulators, shareholders, competitors – and the community at large. All employees sign a Code of Ethics upon joining the Company and confirm their intention to adhere to it.

Guided by its policy on sustainability, VIS strives for its activities and services to contribute in a sustainable way to the good of society, including employees, customers, shareholders, and other stakeholders of the Company. The Company places emphasis on environmental, social and governance issues. The Company supports the Global Goals of the United Nations and uses them as a guiding light in its activities. The Company sets measurable targets in order to monitor the implementation of the sustainability policy and annually publishes a sustainability report in accordance with international standards.

According to the Board's policy on suitability, competence and diversity, the Company's senior management and management team should reflect diversity with regard to factors such as age, gender, educational or professional background, in order to increase the likelihood of having in place the type of diverse knowledge, experience and insight that is necessary for the future success of the Company and to prevent opinions from becoming too uniform. In assessing the suitability of directors, it shall be considered whether the directors have an experience that ensures diversity and that the experience of the Board as a whole ensures that the Company is managed in a professional manner.

Shareholders' Meetings

A shareholders' meeting of VIS is the supreme authority in the affairs of VIS as provided for by law and the Company's Articles of Association. At shareholders' meetings, shareholders exercise their powers of decision over the affairs of the Company. The VIS Annual General Meeting (AGM) shall be held before the end of March each year and considers the items of business provided for by law and the Company's Articles of Association. At the AGM, the Board of Directors is elected, audited annual financial statements for the preceding year are presented, a decision is taken regarding the disposal of the Company's profits or losses, fees for members of the Board and sub-committees are decided, and the Board's proposal on a Remuneration Policy is presented to the shareholders.

The VIS AGM was held on 19 March 2021.

VIS is listed on the main market of Nasdaq Iceland, which means that the Company is required to abide by special rules of the Act on Limited Liability Companies concerning the convening of meetings and disclosure of information and materials in connection with the AGM and other meetings of shareholders. In most cases, these rules go as far as or further than the Corporate Governance Guidelines.

Attendance at the AGM, Election of Meeting Chairman and Share Register

Further details on the agenda and proceedings at the AGM and shareholders' meetings in general, including the right to attend and the election of the meeting chairman and meeting secretary, are found in the Company's Articles of Association which are available on the VIS website. The VIS Articles of Association include provisions on the Company's object, share capital, Board of Directors, annual financial statements and auditing. The Company maintains a share register by means of a special shareholder registration system, as the Company's shares are issued electronically and registered in the book-entry system of Nasdaq CSD.

Shareholders and Relations with the Board of Directors

Communication with shareholders takes place mainly at shareholders' meetings. The Company publishes the required financial information such as quarterly results. Earnings presentations for investors are generally held the day after the publication of results at VIS headquarters and are streamed live. The presentations give shareholders and analysts an opportunity to ask questions of management concerning the Company's operations and performance. Shareholders may also request that meetings address issues concerning the Board of Directors, express their views regarding the Company's operations and submit questions. The Chairman of the Board is the Board's liaison with the shareholders. Shareholders can submit questions to the Board at stjorn@vis.is.

Nomination Committee

A shareholders' meeting held on 20 September 2018 approved the establishment of a Nomination Committee, which operates according to rules of procedure approved at the meeting. The purpose of the Committee is to provide shareholders with sufficient information so that they can take an informed decision on the election of Board members. The Nomination Committee acts in an advisory capacity on the selection of Board members and is elected annually by the shareholders at a shareholders' meeting.

The establishment of the Nomination Committee helps to ensure that the Board of Directors as a whole possesses a diverse range of qualifications, experience and knowledge, as the Committee is specifically instructed to take these factors into account when preparing Board nominations.

The members of the Nomination Committee are as follows:

Jensína Kristín Böðvarsdóttir, formaður nefndar
Gylfi Dalmann Aðalsteinsson
Magnús Bjarnason

The Rules of Procedure of the Nomination Committee and further information on the Committee are available in the investor section of the Company's website at https://vis.is/tilnefningarnefnd/. Shareholders can submit questions to the Nomination Committee at tilnefningarnefnd@vis.is.

Board of Directors and Sub-Committees

Main tasks and responsibilities, size and composition

The Board of Directors is the supreme authority in the affairs of the Company between shareholders' meetings, subject to the limitations imposed by law, the Company's Articles of Association and the rules of procedure of the Board. According to the Articles of Association, the VIS Board of Directors shall be composed of five principal members and two alternates.

The Nomination Committee must comply with the requirements of law and the Guidelines on Corporate Governance when presenting its reasoned proposal on the best composition of the Board. The members of the Board of Directors should have a diverse background and possess a breadth of experience and knowledge, and the gender ratio should be as even as possible. According to the Company's policy on suitability, competence and diversity, the assessment of the Board's qualifications should take into account whether the Board as a whole reflects sufficient diversity in terms of education, professional background, age, gender, knowledge, skills and experience to ensure that the Company is managed in a professional manner. The Board is comprised of three men and two women, so that the gender ratio is 60% male and 40% female. The Board members are between the ages of 34 and 69 and the average age is 52.2. The Board members have extensive education, including in the fields of economics, marketing, law, business, finance and investment, and securities trading. The Board members have extensive industry experience in the areas of operations, management and consulting.

Detailed information on the current Board members can be found at the end of this Statement.

Eligibility and Independence of Board members

Stricter rules apply concerning the eligibility of Board members of insurance companies, who must undergo a special eligibility assessment by the Financial Supervisory Authority (the FSA). All principal members of the VIS Board have been assessed and approved as eligible by the FSA.

All of the Company's Board members are considered independent of the Company. No VIS shareholder holds a qualifying holding in the Company. The CEO of the Company, Helgi Bjarnason, is the Chairman of the Board of Lífís, a VIS subsidiary, while the remaining Board members of Lífís are considered independent of VIS as required by the Act on Insurance Activities.

Co-operation, communications, goals and rules of procedure of the Board of Directors

The VIS Board of Directors is strongly committed to its work, communications and setting goals. At the end of each year, it adopts a work plan for the year ahead and publishes the Company's financial calendar at the same time. At the beginning of the year, the Board records its main tasks and areas of focus for the year ahead in its work plan.

The Board of Directors has also established rules of procedure for itself which it reviewed during the year.

The rules of procedure also address preparations for and procedure at Board meetings, to ensure that the Board receives the necessary materials in a timely manner prior to meetings and that it meets as often as necessary to enable it to take informed decisions. The rules of procedure of the Board are available in the investors section of the Company's website at https://vis.is/starfsreglur-og-stjornarhaettir/.

The operational goals of the Board of Directors are for VIS to be a strong insurance company which stays ahead of its competitors, provides outstanding service to customers, is a desirable place to work and delivers reasonable returns to its owners.

The Board has established three sub-committees: an Audit Committee, a Remuneration Committee and a Risk Committee. The appointment of these committees takes place following the AGM. The sub-committees are intended to improve procedures in matters that the Board is responsible for and make the work of the Board more purposeful. All of the sub-committees operate under the responsibility of the Board of Directors.

Audit Committee

The VIS Audit Committee is composed of four members, two women and two men. The Committee has adopted rules of procedure which were approved by the Board. The Audit Committee has the role of ensuring that the Company's annual financial statements and other financial information are of the required quality and the independence of its auditors. The Committee's oversight includes procedures for the preparation of financial statements, internal controls and risk management. The rules of procedure of the Audit Committee are available in the investors section of the Company's website at: https://vis.is/starfsreglur-og-stjornarhaettir/. In 2021, all members of the Audit Committee were independent of VIS. Information on the current members can be found at the end of this Statement.

Remuneration Committee

The Remuneration Committee consists of three members selected from among members of the Board of Directors, two women and one man. The Remuneration Committee has adopted rules of procedure that were approved by the Board. The Remuneration Committee has the role of preparing the Company's remuneration policy and ensuring it is followed, ensuring that wages and other employment terms adhere to applicable laws, regulations and best practices, taking an independent position on the impact of compensation on the Company's risk-taking and risk management, and providing guidance to the Board of Directors and CEO concerning the employment terms of the Company's senior management. The rules of procedure of the Committee are available in the investors section of the Company's website at: https://vis.is/starfsreglur-og-stjornarhaettir/. Information on the current members can be found at the end of this Statement.

Risk Committee

The VIS Risk Committee consists of three members selected from among members of the Board of Directors, two men and one woman. The Committee has adopted rules of procedure which were approved by the Board. The role of the Risk Committee is to advise the Board on the formulation of a risk policy and risk appetite for all important risk factors in the operations of VIS. The Committee has also been assigned the task of advising the Board of Directors on matters related to information technology, following the issue by the Icelandic Financial Supervisory Authority of Guidelines No. 1/2019 for risks related to the IT systems of regulated entities, which places greater responsibility on the Board for these matters. The Committee is to provide advice on the implementation of the Company's risk management strategy, the compliance policy, internal management and control, and the policy on IT operations. The Committee will also assess the organisation and efficacy of key functions. The rules of procedure of the Committee are available in the investors section of the Company's website at: https://vis.is/starfsreglur-og-stjornarhaettir/. Information on the current members can be found at the end of this Statement.

Assessment of the Board's work

In 2021, it was decided to carry out an assessment of the work of the Board internally with the assistance of a VÍS employee. The performance assessment was executed in December 2021. The purpose of the performance assessment is to assist the Chairman and the Board in evaluating the effectiveness of their work as well as to implement refinements and improvements in the work of the Board. The performance assessment is a useful tool for reviewing past performance and improving the Board's ability to perform future tasks. The performance assessment is thus intended to improve the working methods and efficiency of the Board.

The results of the performance assessment showed that the Board members considered the composition of the Board to be very well suited to the needs of the Company and that the directors possessed broad knowledge and experience. Moreover, it was concluded that each of the directors served the Company with great diligence and actively participated in the work of the Board.

Meetings and minutes of Board meetings

Detailed minutes are kept of Board meetings in accordance with the Corporate Governance Guidelines. The provisions on special eligibility in the rules of procedure for the Board serve to increase transparency and strengthen preventive procedures. The Board's secretary reviews the list of directors' interests ahead of Board meetings, and it is also checked if the directors have any connection to specific items of business at the beginning of every Board meeting.

In cases where an item of business may concern the interests of a director, the director concerned will leave the meeting and receives no materials on the matter in question. It is assessed on the basis of the circumstances and the nature of the matter concerned whether the director in question will be given access to the materials on the matter and the relevant minutes after the matter has been considered. The Board always had a quorum at its meetings during the year and rules on eligibility were observed. The number of meetings and attendance of directors and members of sub-committees at meetings held during the year was as follows:

- The VIS Board of Directors met 17 times from its election at the 2021 AGM until 24 February 2022.
- The VIS Audit Committee met 9 times from its appointment until 21 February 2022.
- The VIS Remuneration Committee met 6 times from its appointment until 14 February 2022.
- The VIS Risk Committee met 8 times from its appointment until 17 February 2022.
- The table below shows the attendance of directors and members of sub-committees at meetings during the year.

Member	Period	Board of Directors	Audit Committee	Remuneration Committee	Risk Committe
Áslaug Rós Guðmundsdóttir	20.03.2021 – 24.02.2022		9		
Guðný Hansdóttir	20.03.2021 – 24.02.2022	17	9	6	
Ingunn Svala Leifsdóttir	20.03.2021 – 31.08.2021		1		
Marta Guðrún Blöndal	20.03.2021 – 24.02.2022	17		6	8
Óskar Hafnfjörð Auðunsson	31.08.2021 – 24.02 2022		7		
Stefán Héðinn Stefánsson	20.03.2021 – 24.02.2022	17		6	
Valdimar Svavarsson	20.03.2021 – 24.02.2022	17			8
Vilhjálmur Egilsson	20.03.2021 – 24.02.2022	17	9		8
Ragnheiður Hrefna Magnúsdóttir	20.03.2021 – 24.02.2022	0			
Sveinn Friðrik Sveinsson	20.03.2021 – 24.02.2022	0			

Board members

The Board of Directors elects a Chairman and Vice-Chairman from among its members and otherwise allocates tasks among its members as required. The Chairman speaks for the Board and represents it in the affairs of the Company unless otherwise decided by the Board. The Chairman, together with the CEO, is also responsible for the external relations of the Company in accordance with general practice and prevailing circumstances. The Chairman represents the Board vis-à-vis the CEO.

Board members must familiarise themselves with the laws and regulations governing the operations and activities of insurance companies and understand their role and responsibilities as directors. The rules of procedure of the Board describe the duties of the members and Chairman of the Board. The rules of procedure include specific provisions on the introduction of new members to the Board.

Stefán Héðinn Stefánsson
Chairman of the Board

Stefán joined the VIS Board of Directors in March 2020. He has been assessed as eligible by the FSA.

Year of birth: 1971

Education: MS in International Shipping and Finance from the Alba and Henley business schools. MSc. in International Securities, Investment and Banking from the University of Reading and a Cand.Oceon. in Business Administration from the University of Iceland. Licensed securities broker.

Main occupation: CEO of Cargow BV, CEO of Thor Shipping ehf. and the Managing Director of A-ráðgjöf ehf.

Work experience: Deputy CEO of Saga Investment Bank (2010-2011), head of Asset Management at Landsbanki (2003-2008) and head of Business Development at Landsbanki (2001-2003).

Other directorships: Cargow BV (director), A-ráðgjöf ehf. (director), Cargow Iceland ehf. (Chairman of the Board), Thor Shipping ehf. (Chairman of the Board).

Shareholding in VIS and independence: Stefán holds 500,000 shares in VIS directly and 400,000 shares through A-ráðgjöf ehf. Stefán is considered independent of the Company.

No interest ties with major customers or competitors of VIS.

Vilhjálmur Egilsson
Vice-Chairman of the Board

Vilhjálmur joined the VIS Board of Directors in December 2018. He has been assessed as eligible by the FSA.

Year of birth: 1952

Education: PhD in Economics from the University of Southern California, Los Angeles; Master's Degree in Economics from the University of Southern California; business administration degree from the University of Iceland.

Main occupation: Self-employed.

Work experience: Rector of Bifröst University (2013-2020). Managing Director of the Confederation of Icelandic Enterprise (2006-2013). Permanent Secretary of the Fisheries Ministry (2004-2006). On the Executive Board of the International Monetary Fund (IMF) (2003). Managing Director of the Iceland Chamber of Commerce (1987-2003). Member of Parliament for Northwest Iceland (1991-2003). Economist for the Confederation of Icelandic Employers (1982-1987).

Other directorships: Innviðir fjárfestingar slhf., Rannsóknarsetur verslunarinnar ses., SAGA jarðvangur ses., Vesturfarasetrið ses., Dansk-íslenska viðskiptaráðið, Fransk-íslenska viðskiptaráðið.

Shareholding in VIS and independence: Vilhjálmur holds no shares in VIS and is considered independent of the Company.

No interest ties with major customers or competitors of VIS.

Guðný Hansdóttir
Director

Guðný joined the VIS Board of Directors in March 2020. He has been assessed as eligible by the FSA.

Year of birth: 1967

Education: MBA from the Florida Institute of Technology and a BS in Marketing from the same school.

Main occupation: Investor

Work experience: VP for Human Resources at Inness (2014-2018) and Chief Human Resources Officer at Skeljungur (2009-2014). Previously, Foreign Marketing Coordinator at Penninn Officeday, VP for Human Resources at Air Atlanta and Director of Cabin Crew at Icelandair.

Other directorships: Value Factory Ísland ehf. (director), Medisýn ehf. (alternate director), KIB 6 ehf. (alternate director), Fly Play hf. (director).

Shareholding in VIS and independence: Guðný is one of the owners of KG eignarhald ehf. which owns 887,525 shares in the Company. Guðný is independent of the Company, its day-to-day management and its major shareholders.

No interest ties with major customers or competitors of VIS.

Marta Guðrún Blöndal
Director

Marta joined the VÍS Board of Directors in December 2018. He has been assessed as eligible by the FSA.

Year of birth: 1988

Education: Cand.Jur. from the University of Iceland, admission to practice before the district courts.

Main occupation: General Counsel of ORF líftækni hf.

Work experience: General Counsel of ORF líftækni hf. since April 2018. Previously, Assistant Managing Director and Counsel at the Iceland Chamber of Commerce (2014-2018). Associate at Juris (2013-2014). Rehearing Committee (2013-2014). Ministry of the Interior (2012-2013). Directorate of Immigration (2011-2012).

Other directorships: Member of the Nordic Arbitration Centre.

Shareholding in VIS and independence: Marta holds no shares in VIS and is considered independent of the Company.

No interest ties with major customers or competitors of VIS.

Valdimar Svavarsson
Director

Valdimar joined the VIS Board of Directors in March 2017. He has been assessed as eligible by the FSA.

Year of birth: 1968

Education: BA in Economics. Licensed securities broker since 1998. Registered Person Exam SFA London 2001 (equivalent to securities brokerage license).

Main occupation: Managing Director of Civitas ehf., investments and investment management. Managing Director of the investment company Hlíð and NH eignir ehf.

Work experience: Head of Business Development and Corporate Finance specialist at Virðing hf. (2011-2017). Managing Director of the operating Company of Virðing hf. (2010-2011). Managing Director of Quantum Consulting (2008-2010). Head of division at VBS Investment Bank (2004-2007). Director of Private Banking at Heritable Bank (2001-2003).

Other directorships: Civitas ehf. (director), Fjárfestingafélagið Solace ehf. (director), Solace slf. (director), Holtseignir ehf. (director), Skektan ehf. (alternate director), Knattspyrnudeild F.H. (Chairman of the Board).

Shareholding in VIS and independence: Valdimar holds no shares in VIS and is considered independent of the Company.

No interest ties with major competitors of VIS.

Committees

As noted above, the VIS Board of Directors has three sub--committees: an Audit Committee, a Remuneration Committee and a Risk Committee.

Members of the Audit Committee:

- Áslaug Rós Guðmundsdóttir, löggiltur endurskoðandi og formaður nefndarinnar
- Ingunn Svala Leifsdóttir/Óskar Hafnfjörð Auðunsson (frá 31. ágúst 2021).
- Guðný Hansdóttir
- Vilhjálmur Egilsson

Members of the Remuneration Committee:

- Marta Guðrún Blöndal, formaður nefndarinnar
- Guðný Hansdóttir
- Stefán Héðinn Stefánsson

Members of the Risk Committee:

- Valdimar Svavarsson, formaður nefndarinnar
- Marta Guðrún Blöndal
- Vilhjálmur Egilsson

CEO

The CEO is appointed by the Board and is responsible for the Company's day-to-day operations in accordance with the policy and decisions of the Board. The CEO is responsible for analysing, measuring, monitoring and supervising the risks inherent in the Company's operations. The CEO is required to maintain an organisational chart that sets out in a clear manner employees' responsibilities, authorisations and communication channels. The law governing insurance companies also sets conditions for the eligibility of the CEO of an insurance company, who must undergo a special eligibility assessment by the FME. The CEO of VIS has been assessed and approved by the FSA. Functions that fall under the CEO's office include risk management, actuary functions, general counsel and investments. Functions that fall under the general counsel include compliance and privacy, governance and quality issues. The persons heading these units are responsible to the CEO.

Helgi Bjarnason
CEO

Helgi Bjarnason became CEO of VÍS on 1 July 2017. He has been assessed as eligible by the FSA.

Year of birth: 1969

Education: BS in Mathematics from the University of Iceland and a Master's Degree in Actuarial Mathematics from the University of Copenhagen.

Work experience: Actuary at Alþjóða líftryggingarfélagið (1997-2006). Deputy CEO of the insurance company Sjóvá and Managing Director of Sjóvá líf (2006-2010). Managing Director at Arion Bank from 2010, one year as Managing Director of Operations and then as Managing Director of Retail Banking (2011-2017).

Other directorships: Líftryggingafélag Íslands hf. (Chairman of the Board), Múlaberg ehf. (Board member), the Icelandic Financial Services Association (Board member).

Shareholding in VIS and independence: Helgi owns 1,626,314 shares in VIS.

No interest ties with major customers or competitors of VÍS.

Senior Management

According to the Board's policy on suitability, competence and diversity, the Company's senior management and management team should reflect diversity with regard to factors such as age, gender, educational or professional background, in order to increase the likelihood of having in place the type of diverse knowledge, experience and insight that is necessary for the future success of the Company and to prevent opinions from becoming too uniform. The senior management comprises three women and two men, so that the gender ratio is 60% female and 40% male. The members of senior management are between the ages of 43 and 52 and the average age is 47.8. The senior management possesses diverse education and extensive experience.

The VIS senior management consists of the CEO, Managing Directors of the Company's three divisions, as well as the Chief Human Resources Officer. The senior management team includes:

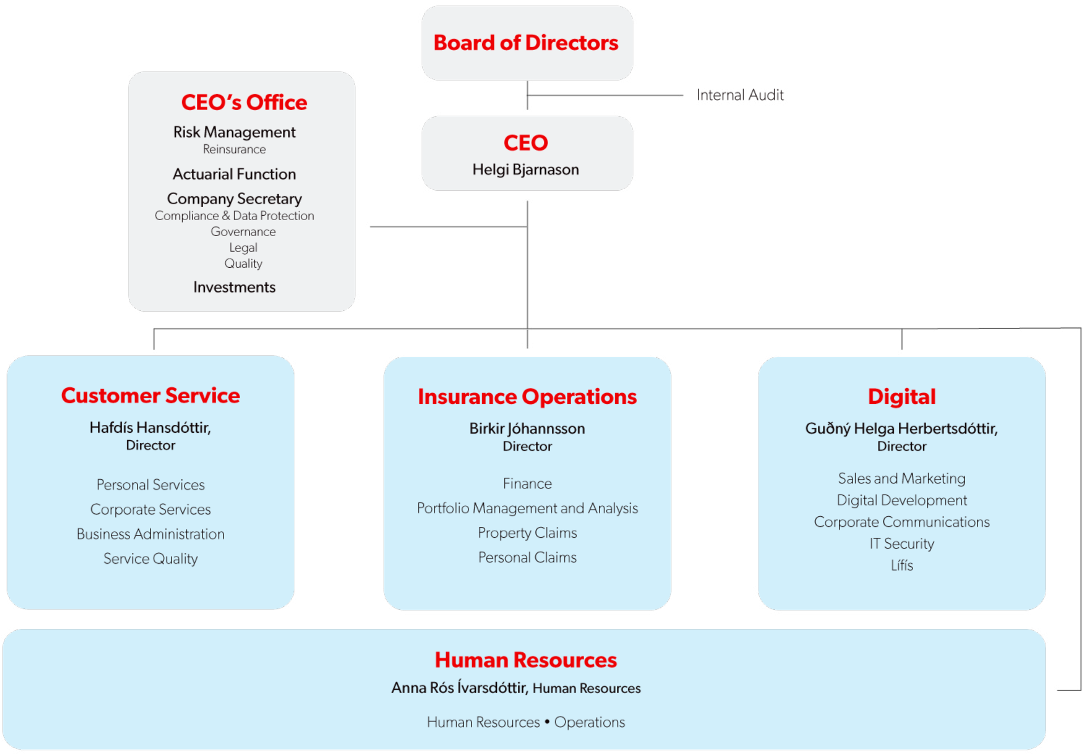
- Helgi Bjarnason, CEO
- Guðný Helga Herbertsdóttir, Managing Director of Digital Development
- Hafdís Hansdóttir, Managing Director of Customer Service
- Birkir Jóhannsson, Managing Director of Core Operations
- Anna Rós Ívarsdóttir, Chief Human Resources Officer

Anna Rós Ívarsdóttir has served as the Chief Human Resources Officer of VIS since 2006. She holds a BA degree in psychology from the University of Iceland.

Guðný Helga Herbertsdóttir was the Chief Marketing Officer of VIS from 2016 until becoming Managing Director of Digital Development in September 2017. She holds a BSc degree in Business Administration from the University of Iceland and a Master's Degree from the Aarhus School of Business.

Hafdís Hansdóttir has been Managing Director of Customer Service since March 2018. Before joining VIS, she served as regional manager for the Reykjavik area at Arion Bank. Hafdís holds a BA degree in Sociology and Media Studies from the University of Iceland and a Master's Degree in Women's Studies from Lancaster University.

Birkir Jóhannsson took over the Managing Director of Core Operations position in June 2021. Birkir holds a law degree from the University of Iceland and a master's degree in corporate finance from Reykjavik University. In addition, Birkir has completed a degree in securities trading and is licensed as a district court attorney.



Investment Advisory Board

VIS maintains an Investment Advisory Board comprised of CEO Helgi Bjarnason, Birkir Jóhannsson, Managing Director of Core Operations, Sigrún Helga Jóhannsdóttir, General Counsel, and Arnór Gunnarsson, Chief Investment Officer. David Tysk, Head of Risk Management, also attends meetings of the Investment Advisory Board as an observer.

Insurance Advisory Board

VIS maintains an Insurance Advisory Board comprised of David Tysk, Head of Risk Management, Birkir Jóhannsson, Managing Director of Core Operations, Hafdís Hansdóttir, Managing Director of Customer Service and Poul Christoffer Thomassen, Actuary.

Internal Risk Committee

VIS maintains an Internal Risk Committee comprised of Birkir Jóhannsson, Managing Director of Core Operations, Guðný Helga Herbertsdóttir, Managing Director of Digital Development, David Tysk, Head of Risk Management, and Sigrún Helga Jóhannsdóttir, General Counsel.

Internal Control, Audits and Financial Statement

The Company has in place a structured internal control system and has established a policy on both internal control and internal auditing. Internal control consists of procedures shaped by the Company's Board of Directors, its management and employees, and is designed to provide adequate assurance of and contribute to the Company's achievement of its objectives regarding:

- performance and efficiency of operations (operational targets);
- availability and reliability of information (accurate information target);
- compliance with laws and regulations (compliance target).

There are three lines of defence in the Company's internal control environment, designed to reduce the risk/uncertainty of the Company failing to achieve its targets:

Defence Line 1 – The first line of defence consists of the Company's management and employees.

Defence line 2 – The second line of defence consists of special control units, such as compliance, risk management and actuary functions.

Defence Line 3 – nternal Audit comprises the third line of defence.

The internal control system extends to the accounting system and is intended to ensure that the information in the annual financial statements is adequate, covers important aspects and is presented in an impartial manner. Financial statements are prepared by the Company's specialists and management in accordance with International Financial Reporting Standards, reviewed in part or in full by the Company's internal committees and the control units of the second line of defence and then reviewed by external auditors. The Company's risk management ensures that the main risks and uncertainties facing the business have been identified through a regular review of risk analysis.

The Audit Committee monitors that the Board ensures with its policy and procedures that the Company has implemented appropriate internal management and control functions that address risks in its operations and that these internal control functions work effectively. The Committee reviews with management, internal auditors and external auditors, as necessary, whether internal management and control, risk management and other control functions are sufficient at any given time. The Committee reviews that Internal Audit has a reasonable mandate to carry out internal auditing in a satisfactory manner. It reviews the internal audit plan, the results of the internal audit for the year and management's response to it. The committee also ensures that there are no restrictions on the internal auditor's work.

Compliance

Compliance is one of the key functions of an insurance company and serves to advise the Board and the CEO on compliance with laws and regulations and the Company's policies and rules regarding its organisational structure. To that end, Compliance ensures that the Company's procedures, processes and workflows conform to current laws and regulations. Compliance is involved in the analysis of deviations and follow-up on such deviations. It assesses the risk arising from non-compliance with laws and regulations and the risk of changes in the Company's legislative environment in close co-operation with Risk Management. Compliance ensures that employees are educated about current laws and regulations and monitors that internal rules are followed. Compliance is also responsible for ensuring that the FSA's rules and the Company's own rules regarding the treatment of inside information and insider trading, established under Act No. 60/2021 on Measures Against Market Abuse, are enforced at the Company.

Risk Management

Risk management is another key function of an insurance company. The Company has adopted a risk management policy as required by law, which is designed to meet the required standards for insurance companies' risk management. The policy is approved by the Board. The policy addresses the organisation and implementation of risk management within the VIS and Lífís group, identification of risk factors, reporting and information disclosure and the duty of employees to contribute to the success of the policy.

The Company has also adopted a policy on own risk and solvency assessment, ORSA. The assessment's findings provide information to the Board and management on the Company's risk profile and capital requirements, based on given assumptions. The results thus need to be taken into account in all strategic decisions, such as in preparing business and operating plans, treasury operations, and development of new products.

Actuary Department

The Actuary Department is the third key function. This department performs the functions that fall within the scope of an actuary, as provided for in the Act on Insurance Activities, as well as performing other conventional tasks of actuaries. Its main task assessing the quality of data on which the calculation of technical provisions is based; participating in calculations of solvency and minimum solvency; participating in the Company's ORSA process; assessing and working on the Company's reinsurance operations; advising on risk-taking in underwriting operations; assessing insurance premiums for different insurance lines and working on the premium tariff as applicable; building models and reporting.

Internal Audit

Internal Audit is the fourth key function and part of the VIS internal control system. Internal Audit operates under the direct authority of the Board in accordance with specific terms of reference or a contract and is independent of other Company activities. The main focus of Internal Audit is to assess whether internal controls in respect of daily operations are sufficient to ensure that:

- risks are adequately identified and managed;
- important information is accurate, reliable and relevant;
- employees' actions comply with policies and procedures;
- valuable resources are properly cared for, utilised and procured as efficiently as possible;
- targets are achieved and plans are met;
- continuous quality and improvement work is integrated in normal operations;
- laws and regulations are complied with.

External Audit

In accordance with the Act on Insurance Activities and the VIS Articles of Association, an external auditor is elected at the AGM. The external auditor shall at all times have access to all books and documents of the Company. For further details on external audit arrangements, reference is made to the Act on Insurance Activities, the Act on Annual Accounts and the Act on Auditors. PricewaterhouseCoopers ehf. was elected as the external auditor of VIS at the AGM held on 22 March 2018 and was re-elected at the 2019, 2020 and 2021 AGMs.

Information on violations of laws and regulations, as determined by relevant regulatory or dispute resolution bodies, and litigation

The Company has not been convicted of any punishable offence under the General Penal Code, the Act on Insurance Activities or the Acts on Limited Liability Companies, Private Limited Companies, accounting, financial statements, bankruptcy or taxation, nor under special legislation applicable to entities subject to official regulation of insurance activities.

The Company has not violated any laws or rules imposed by regulators.

Information on Corporate Governance

VIS is of the view that the Company and its Board of Directors have complied with its obligation to disclose information on the Company's corporate governance practices by issuing this Corporate Governance Statement and by virtue of the Company's investor website, which contains all the information that the Company is required to disclose under the relevant laws and the Corporate Governance Guidelines. In addition, extensive information on the Company may be found in its annual reports.