



Transparency report 2019

KPMG Iceland

June 2020

kpmg.is





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01

Foreword

Trust is absolutely essential for a thriving business community and an efficiently functioning capital market, and is the cornerstone of all our activities. We fulfil our social responsibility by providing independent and objective audit services and build public trust in our clients' financial reporting.

We are living in an era of major changes: Technological advances are disrupting existing business and delivery models, differences between industries are being erased, and geopolitical factors are impacting both trust-based relationships and global trade. Increased uncertainty is changing risk profiles for all companies and thus making our role as auditors and advisers even more important. The purpose of this Transparency Report is to demonstrate our attitude and our commitment to that mission in society.

At KPMG, our ambition is to be the clear choice, for clients and employees alike. For us this means evolving our employees to be extraordinary, ensure that the clients see a difference in us and build public trust in everything we do. We regard building trust and being the preferred choice as two sides of the same coin, both of which depend on prioritizing quality and integrity in everything we do.



Independence, ethical conduct and high moral standards are critical for our business, and we attach significant importance to embedding this in our work for clients and associated deliveries. Our global Code of Conduct clarifies the values and ethical principles that underpin our role as trustees for society.

Competence development is the bedrock of a strong quality culture. A continuous focus on competence enhancement and ensuring an appropriate combination of skills among our team is therefore crucial for delivering high-quality services. In addition, attitudes, conduct and prioritizations among our leaders are fundamental to the internal trust on which our quality work is based.

We wish to make a difference through compliant, solution-oriented and smart service deliverables that combine the best of our centres of expertise in audit, advisory, tax and legal services.



At KPMG, our ambition is to be the clear choice, for clients and employees alike.

We are proud of our contributions to business and society throughout these years and our current position as auditor for many of Iceland's largest companies. We believe we are well placed to fulfil our social responsibility, now and in the future.

KPMG's quality system covers all areas of our business and we set high quality standards for all client engagements and for all types of service we deliver. This Transparency Report describes our quality system and showcases our work on continuous quality improvements.

We hope you find this report informative and insightful!



Jón S. Helgason

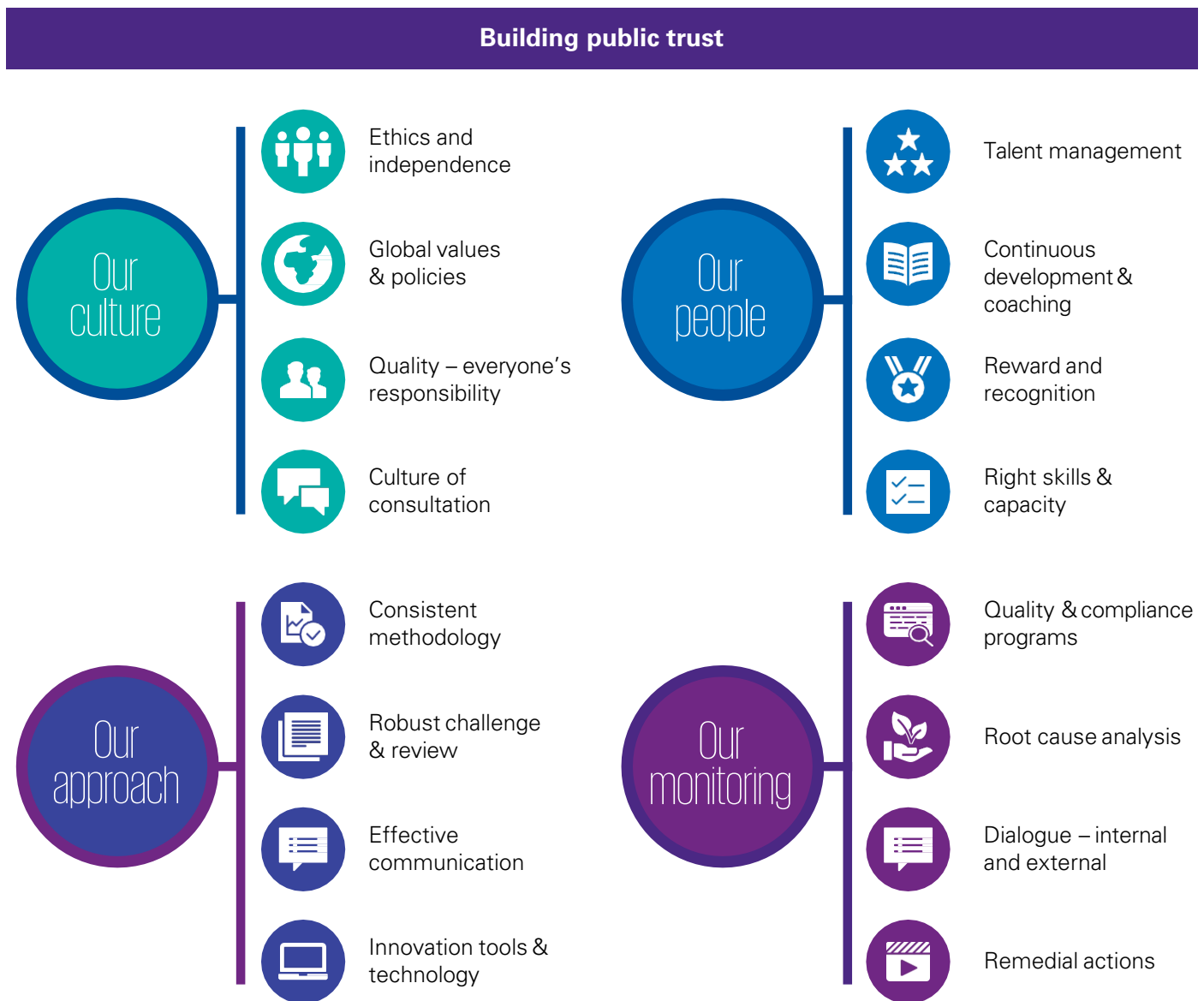
Senior Partner

02

Our relentless
focus on audit
quality

Quality – the foundation of trust

High audit quality is essential for building high levels of trust. KPMG adopts a relentless focus on quality, and we continuously strive to further strengthen our audit quality.





03

Our activities

KPMG is one of the world's leading centres of expertise in audit, advisory, tax and legal services.



KPMG International

KPMG is organised as a network of audit and advisory firms and employs more than 207,000 staff in offices in 153 countries.

KPMG's global network of businesses is coordinated by KPMG International, which is a Swiss cooperative.

KPMG is structured in such a way that global activities support a consistent level of quality and set of values, regardless of where in the world KPMG is active. Global Management is responsible for establishing shared values, structures and policies, including a global Code of Conduct, which all members of the network undertake to implement and uphold.

KPMG International is managed by a Global Board with representatives from the largest member firms measured in terms of sales. The Board comprises a Chairperson, a Deputy Chairperson, the CEO and the Chairpersons of the three regions into which KPMG is split: Americas, Asia Pacific and the region to which KPMG Iceland belongs, namely EMA (Europe, the Middle East and Africa). A number of senior partners from the largest KPMG practices across the world are also represented.

207 000 
staff

153 
countries

Further details on KPMG International's governance structure can be found in the 2019 KPMG International Transparency Report.



KPMG Iceland

In Iceland, KPMG was represented by 284 staff and partners spread over 16 offices at 30 December 2019. Our staff deliver services in the three business areas: Audit, Advisory and Tax/Law.

Audit, Tax and Advisory services are delivered through the legal entity KPMG ehf. and legal services through the legal entity KPMG Lögmenn ehf.

KPMG's audit practice is based on Icelandic audit legislation and international standards for auditing and ethics. These in turn are founded on core principles relating to professional integrity, independence and ethical conduct.

We provide audit services to small Icelandic businesses, public-sector enterprises and multinational companies. KPMG applies the same methodologies and procedures across the entire globe. This ensures a consistent and uniform client experience in all countries. Our advisory and consulting activities are performed by a number of specialist groups. Specialists in the Advisory business are employed as an integral part of the audit teams in order to strengthen our audit work in areas that require specialist expertise.

We also offer technical assistance with the preparation of annual financial statements and tax reporting to non-audit clients.

Our values

KPMG's values are embedded in the company's activities: Generous, Proactive, Inclusive and Innovative.

Our values permeate our working day and are characterised by respect and responsibility towards our surroundings. Our values express who we are and how we work. Our people display a proactive, inclusive and inquisitive attitude, and a willingness to innovate. Our communication is open and honest, and in demanding situations we act with courage and candour. KPMG's staff respect the individual, seek the facts and provide insight. We are committed to our communities – and, above all, we act with integrity.

We realise our core values through KPMG's global set of values:



We lead by example

At all levels we act in a manner that exemplifies what we expect of each other and our clients.



We work together

We bring out the best in each other and create strong and successful working relationships.



We respect the individual

We respect people for who they are and for their knowledge, skills and experience as individuals and team members.



We seek the facts and provide insight

By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers.



We are open and honest in our communication

We share information, insight and advice frequently and constructively and manage tough situations with courage and candour.



We are committed to our communities

We act as responsible corporate citizens by broadening our expertise, experience and perspectives through engagement and work in our communities and protecting the environment.



Above all, we act with integrity

We constantly strive to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

Our values form the core of our global Code of Conduct, which defines standards for the ethical behaviours we demand of all employees in KPMG's network of companies across the globe.





Corporate Social Responsibility

At KPMG, Corporate Social Responsibility (CSR) involves integrating social and environmental considerations into our strategy and daily operations.

As a supplier of professional services, we help our clients to ensure that their operations are legal, long-term and sustainable. We use our expertise and experience to improve society. Our business is run responsibly, and based on environmentally certified operations, a sound working environment, a culture that promotes inclusion and diversity, and an ethical and value-based approach. We demonstrate our social commitment by partnering with non-governmental organizations (NGOs) and social entrepreneurs to deliver pro bono services and financial support, and by highlighting the important work they perform.

An important part of KPMG's CSR work involves offering our specialist expertise free of charge to NGOs with limited budgets and assignment backlogs. By encouraging our employees to identify worthy causes that could benefit from their commercial experience and professional skills, KPMG helps to change society for the better.

KPMG is environmentally certified in accordance with the Eco-Lighthouse scheme. The work we have performed to achieve this certification has strengthened our internal environmental work. Our emissions primarily derive from air travel, and we are constantly endeavouring to reduce these emissions. We also compensate for our usage by investing in emissions allowances that support important environmental projects.

KPMG's approach to CSR is based on the UN's Sustainable Development Goals (SDG). We have selected four goals we believe are well suited to our strategic focus and orientation.

These are:

- Quality education (SDG 4)
- Gender equality (SDG 5)
- Reduced inequalities (SDG 10)
- Life below water (SDG 14)



04

Organisation and ownership

KPMG ehf. is a certified Icelandic auditing company and is wholly owned by practicing partners.



KPMG ehf. is an auditing firm which was established on 4 September 1975 and became an affiliate with KPMG International in 1985.

KPMG is authorised in accordance with the Icelandic Act on Auditors and Auditing no. 94/2019, and has the auditor registration number EF-2011-003.

As of 30 September 2019, the company employed a total of 57 state-authorized public accountants.

KPMG's financial year runs from 1 October to 30 September.

KPMG is wholly owned by 36 practicing partners. A list of the partners is accessible at the company's website.



05

Governance



KPMG Iceland

KPMG strives to maintain good corporate governance.

KPMG's governance is described in its Articles of Association.

General Meeting

The General Meeting of KPMG ehf. is the ultimate decision-making body of KPMG Iceland.

Board of Directors

The Boards of Directors of KPMG ehf. is constituted in accordance with Icelandic corporate legislation, including the provisions of the Icelandic Act on Auditors and Auditing. All Board members shall uphold the company's shared interests. In accordance with the company's Articles of Association, the Board shall comprise five members. Members of the Board are elected for a term of one year. The Board appoints its own Chairperson.

Senior Partner/Chief Executive Officer

The role of CEO is a fixed-term position. The CEO is appointed by the Board of Directors. The CEO is responsible for the day-to-day management of KPMG's activities in Iceland.

The CEO bases all his or her work on KPMG's values, overarching goals and adopted strategies.

The Board of Directors

Svanbjörn Thoroddsen
Chairperson, Partner

Ágúst Karl Guðmundsson
Partner

Hlynur Sigurðsson
Partner

Hrafnhildur Helgadóttir
Partner

Kristrún H. Ingólfssdóttir
Partner

Management

Jón S. Helgason
Senior Partner and CEO

Benedikt K. Magnússon
Head of Advisory

Guðný H. Guðmundsdóttir
Head of Audit

Soffía Eydís Björgvinsdóttir
Head of Tax & Legal

Birna M. Rannversdóttir
Head of Bookkeeping







06

Our system of quality control

Stringent quality control requirements are placed on Icelandic auditing companies, including through the Icelandic Act on Auditors and Auditing and the ISQC 1 standard (International Standard on Quality Control). These international standards are embedded in KPMG's internal quality control system.

The main elements of our system of quality control are as follows:

- management strategy and culture "tone at the top"
- association with the right clients
- clear standards and robust audit tools
- recruitment, development and assignment of appropriately qualified personnel
- commitment to technical excellence and quality service delivery
- performance of effective and efficient audits
- commitment to continuous improvement



Responsibility for quality and quality control

The Board of Directors, Chief Executive Officer and Heads of Functions

In accordance with the principles of ISQC 1, the Board has overarching responsibility for KPMG's quality control system. The CEO has daily responsibility for the system and ensuring that the company complies with the system.

Heads of functions are responsible for the quality of the delivered services within their disciplines. Together with the Quality and Risk Management Partner, the Heads of functions establish the required policies for risk management, quality assurance and monitoring.

Head of Audit Quality

The Head of Audit Quality is responsible for ensuring high quality execution of the audit assignments and reports to Audit management at KPMG Iceland on an ongoing basis.

Quality & Risk Management (QRM)

The Quality & Risk Management division covers the areas of risk management, ethics and independence, anti-money laundering and corruption, legal advice and quality control. Responsibility for the above areas is delegated to the QRM Partner (Quality & Risk Management Partner/Ethics & Integrity Partner). The QRM Partner reports to the CEO and is part of the CEO's management group.

The QRM division is responsible for:

- establishing QRM guidelines and policies
- monitoring compliance with guidelines and policies
- implementing training for employees at all levels within risk management
- planning and implementing quality controls and compliance testing
- following up on ethics and independence breaches
- providing ongoing assistance to management and partners on issues relating to risk management
- handling any disputes in which KPMG may be involved

Global Quality & Risk Management (GQ&RM)

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. The National QRM Partner reports to the ARL for Northern Europe, who in turn reports to KPMG International.

Ethics and Code of Conduct

Ethical standards – Code of Conduct

KPMG ensures compliance with all judicial and ethical requirements, as well as requirements for professional independence, including through the use of clear risk management policies and procedures. We strive to ensure that everything we do is performed to high ethical standards. The culture in all KPMG companies is guided by our values and our global Code of Conduct. We communicate our values and expected behaviours to all employees, and these are also an integral part of employee performance appraisals and remuneration processes at all levels.

Compliance with KPMG's values is a particularly important consideration on admittance of partners and promotion to management positions. The ethical guidelines emphasise that all employees must comply with regulations regarding independence, confidentiality, objectivity and professional ethics, and that any breach of the independence rules shall be reported immediately.

Anti-money laundering

A new Icelandic Anti-Money Laundering Act came into effect on 1 January 2019. The regulation has been incorporated in our guidelines to combat money laundering and terrorist financing. The required client actions according to the Anti-Money Laundering Act are an integral part of our client and project evaluation process. These guidelines regulate ongoing monitoring, the duty to investigate and report, training and the responsibilities of the Money Laundering Officer.

Anti-corruption

KPMG adopts a zero-tolerance approach to bribery and corruption. We prohibit all forms of corruption and do not tolerate any bribery by third parties, including clients, suppliers and public-sector officers. KPMG provides training on combating bribery and corruption for all partners and employees, and has established guidelines on which gifts KPMG employees may give and receive.

Insider trading

KPMG's guidelines for insider trading comply with the Icelandic Securities Trading Act.

Notification of censurable matters (whistle-blowing)

KPMG has an established routine for whistle-blowing. Whistle-blowing involves escalating potential censurable matters to a party who can deal with the matter in question. Censurable matters include breaches of statutory regulations, internal regulations or ethical guidelines.

KPMG's whistle-blowing procedures shall help to ensure that anyone who may have concerns about others' conduct, either internally or at a client site, can escalate the matter – even when this is difficult. The identity of the whistle-blower always remains confidential, and individuals shall be able to notify censurable matters without fear of reprisals.

Whistle-blowing can be performed anonymously; however, a transparent approach will normally guarantee smoother processing and a more favourable outcome for everyone involved. Internationally, KPMG has a dedicated hotline for anonymous whistle-blowing that can be used by all our employees. Third parties can also use the whistle-blowing service to report censurable matters.

Reports of whistle-blowing are evaluated by KPMG QRM.



Our global methodology secures a uniform and efficient audit in accordance with international auditing standards for all our clients – regardless of where in the world the engagement is being performed.

Quality in client engagements

Acceptance and continuation of clients and engagements

Stringent guidelines for acceptance and continuation of clients and engagements are necessary in order to deliver high quality professional services. KPMG has established global guidelines and policies to determine whether we should accept or continue a client relationship, and whether we should deliver certain services to a particular client. High-risk clients and engagements require special approval from the Quality & Risk Management Partner.

KPMG Iceland has developed an electronic tool for risk assessment and client review for use in acceptance and continuation of clients and engagements.

The client and engagement partner is responsible for the risk assessment. We evaluate a number of factors as part of the general acceptance process, including management's and the owners' expertise and integrity, and the company's financial position. In accepting a new client the engagement partner confirms that an identity check and other necessary procedures have been carried out in accordance with anti-money laundering regulations.

All audit engagements are evaluated annually, with a particular focus on re-evaluation of risk profiles, independence, expertise, team cover and rotation.

Execution of engagements

One key element of our professional services are quality reviews, which are incorporated into our routines for engagements. These quality reviews cover policies and guidelines designed to ensure that work performed

satisfies professional standards, statutory requirements and internal quality standards. KPMG's global auditing methodology (KPMG Audit Methodology – KAM) is used in audit engagements to determine the tasks and duties of engagement partners and project managers in accordance with responsibilities in auditing engagements established in international accounting standards and auditing legislation.

Audit methodology

All our audit engagements are implemented in accordance with the requirements and policies established in KAM. KAM has been developed and is continually updated by our Global Services Centre based on the requirements of International Standards on Auditing (ISAs). Our global methodology secures a uniform and efficient audit in accordance with international auditing standards for all our clients – regardless of where in the world the engagement is being performed.

KPMG uses the global audit platform eAudIT to conduct audit assignments, from planning and risk assessment through to the auditor's conclusion and reporting. eAudIT is designed to help the user to consistently make the right choices in accordance with the requirements of our methodology (KAM) to ensure a high-quality audit process.

Our audit methodology is founded on thorough assessments of risk and materiality, leveraging our partners' and colleagues' detailed business intelligence and industry expertise.

We are keen to ensure an effective audit process that not only provides confidence in financial reporting, but also provides added value for our clients. Consequently, we employ a process-oriented audit approach based

on our clients' existing systems and control routines. We make extensive use of IT audit in order to design an audit process for each individual engagement that makes maximum use of the opportunities that lie in the client's IT environment and internal control routines.

KPMG has been heavily investing in evolving the Global Organisation's audit capabilities and will continue to do so in the coming years. This includes investing in a new global electronic audit workflow platform – KPMG Clara – KPMG's smart, modular audit platform that is capable of continually integrating new and emerging technologies, with embedded advanced capabilities that leverage data, automation, and visualisation. Data & Analytics (D&A) is integral to the way KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- timely partner and manager involvement throughout the engagement
- access to the right knowledge by including involvement of specialists, in addition to satisfying training and experience requirements, and securing relevant industry expertise
- critical assessment of all audit evidence obtained during the audit, exercising appropriate professional judgement
- ongoing mentoring, supervision and review of the engagement team

KPMG Clara Workflow

Building on the launch of KPMG Clara in 2017, KPMG has created a new workflow tool that will be used by KPMG Iceland audit teams to execute and document KPMG audits. It is intuitive, user-friendly and innovative. The new system will guide audit teams through a series of steps in a logical sequence, clearly displaying information and visuals, with knowledge and guidance available at the moment of need, along with embedded advanced data and analytics (D&A) capabilities. The workflow and methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project represents a significant redesign of the execution of an audit by KPMG professionals and drives further improvements in audit quality.

KPMG Clara Workflow was piloted in 2018. We are expecting to gradually replace eAudit with KPMG Clara Workflow over the next years.

Controls, evaluation, guidance and support for the engagement team

We have established guidelines for audit work with regard to controls, evaluation, consultation and guidance. In accordance with these guidelines, all audit engagements for listed companies, other public interest entities or high-risk audit engagements are allocated to an audit partner, in addition to the Engagement Partner who is responsible for reviewing engagement quality.

The Head of Audit Quality, together with our Department of Professional Practice (DPP), support our audit partners and offer technical guidance on specific engagement-related issues.

Reporting to clients

Our reporting in the audit report underpins the value and quality of our audit work. The format of the audit report is determined by prevailing applicable auditing standards and auditing legislation, and normally includes confirmation that the annual financial statements provide a true and fair view of the audit client's financial position and results. The audit report also contains declarations on individual disclosures in the Report from the Board of Directors and the company's recording and documentation of accounting information.

In addition to the public audit report, we issue reports to the Board and/or the Audit Committee of the company we are auditing. The contents of these reports could relate to the annual financial statements and Report from the Board of Directors, key accounting judgements, discussion of the company's control functions and other matters we deem to be of material importance to the recipients of the reports. In accordance with the requirements of Icelandic auditing legislation, some matters are reported in the form of numbered letters.

Professional indemnity insurance

Insurance cover is maintained in respect of professional negligence claims. The cover provides territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

Client confidentiality and data security

Our focus on client confidentiality and data security

Maintaining the confidence of clients is critical to KPMG's success. Auditors, lawyers and accountants are subject to a statutory duty of confidentiality, but client confidentiality is also essential for our advisers. We take client confidentiality very seriously.

All our employees participate in ongoing training and coaching, and must issue an annual affidavit confirming their independence and compliance with our guidelines. All our staff can view our national guidelines on information security on our intranet.

Data security and privacy

KPMG processes personal data in client engagements, for marketing purposes and as an employer. This data is processed in accordance with the requirements of the Icelandic Personal Data Act and the General Data Protection Regulation (GDPR).

Guidelines and procedures have been established for processing personal data and everyone at KPMG receives training in this area. KPMG has introduced several planned and systematic measures that guarantee satisfactory data security with regard to confidentiality, integrity and availability.

We perform an annual internal audit of data security and privacy, which also forms one of the focus areas in our Global Compliance Review (GCR).

We understand that security involves more than just processes and



All our employees participate in ongoing training and coaching, and must issue an annual declaration confirming their independence and compliance with our guidelines.

and with this in mind, KPMG International has established a Global Security Operations Centre (GSOC), which monitors our global network 24/7/365. In addition to employing a dedicated team of analysts, GSOC also uses artificial intelligence to analyse our log data to ensure that we can detect and immediately respond to all incidents.

Thanks to our local security team and market-leading technology we can assure our clients their information is in the safest possible hands.

Retention of documentation

KPMG has prepared guidelines for the safekeeping and storage of documentation that apply to all engagements and colleagues. Data stored on mobile media is encrypted. These guidelines and internal procedures ensure that the requirements for safe-keeping incumbent on auditors, accountants and lawyers are satisfied. In addition, processes have been established for safe-keeping of documentation in cases where there is a requirement to protect against deletion, removal or destruction.



KPMG has prepared guidelines for the safekeeping and storage of documentation that apply to all engagements and colleagues.



07

People management

Working environment

Every year we carry out an international employee survey organised by KPMG Global. The results of the most recent employee survey in 2018 revealed a high level of job satisfaction and engagement among our employees. A total of 75 per cent of employees responded, with 87 per cent stating that they would recommend KPMG as a good employer, and as many as 93 per cent responding that they were proud to work at KPMG. A total of 88 per cent consider KPMG a great place to build their career and 92 per cent are willing to put in a great deal of extra effort to help KPMG succeed.



The surveys are used as an important tool to measure whether we are achieving the ambitious goals we have set ourselves and as input for improvements. The most important work takes place after the survey, when each group/division addresses follow-up and development measures.

Talent management

One of the key drivers of quality is ensuring that we allocate the right managers and employees to our assignments. We must secure constant access to people with the appropriate expertise, skills, passion and purpose required to satisfy the clients' needs, and comply with professional requirements and standards. Our system for talent management encompasses the following core areas:

- recruitment and appointments
- development and coaching
- authorisation and accreditation
- resource management
- evaluation of performance and remuneration
- promotions and admittance as partner
- bribery and corruption

Recruitment and appointments

Everyone who applies to work with KPMG, regardless of their level or role, is recorded in our recruitment system, which gathers all the relevant candidate information such as applications, CVs, certificates and diplomas. In the interviews, we attach importance to candidates' competence and experience, integrity and personal characteristics, motivation and engagement, and whether the person identifies with KPMG's values.

On employment, and as part of the employment contract, new recruits sign a confidentiality and independence declaration. During their introduction

to KPMG, new employees must also familiarise themselves with guidelines for physical and personal safety, as well as security policies for IT and electronic communication.

Development and coaching

Newly-hired employees must complete training programmes in several areas, including in the field of ethics and independence, and risk management. During their first months at KPMG, new employees undergo a partly generic and partly individually customised tutorial programme, which includes relevant professional training and methodology, as well as an introduction to our organisation and network, services, strategy and prioritisations, along with routines, guidelines and tools.

KPMG's policy requires all our professional staff to maintain their professional expertise and comply with applicable regulations, including requirements for continuing professional development. We give our partners and staff the opportunity to satisfy competence development requirements and achieve their personal development goals. We do this by facilitating professional training in combination with skills training. We have established programmes for employee and leadership development that cover all levels of experience and all business areas. The contents of the training are regularly reviewed and updated to reflect prevailing requirements for professional expertise.

The extensive mandatory training programme ensures that all our professionals satisfy formal continuing professional development requirements and maintain their core competencies within their respective disciplines. All specialists who deliver services to audit clients are required to first undertake specialist training. This comprises two mandatory courses and an associated test that must be passed. In addition to the mandatory training programme, a number of technical courses are provided on Icelandic accounting standards (IS GAAP). We offer extensive IFRS training at all levels of the organisation.



All professionals are offered a wide range of training in disciplines tailored to their professional requirements.

Authorisation and accreditation

All audit partners and employees with auditing responsibility pursuant to the Icelandic Act on Auditors and Auditing must satisfy the requirements of responsible auditors contained in Article 9 of the Act, including the regulations on continuing professional development and pledging of security. The company runs extensive training for the company's professionals. All responsible auditors are monitored each year to ensure that they as a minimum complete the hours of continuing professional development for the current three-year period required to satisfy statutory requirements. All professionals are offered a wide range of training in disciplines tailored to their professional requirements.

Resource management

Resource management is an important management task, where heads of functions are responsible for allocating engagement partners to respective clients. Resource management complies with professional requirements and KPMG's internal guidelines, placing an emphasis on available capacity and the appropriate expertise. The Engagement Partner is responsible for ensuring that the engagement team constantly has access to adequate resources and skills, including requesting specialist expertise for engagements where required.

Evaluation of performance and remuneration

All staff, including partners, have annual performance appraisals with their personnel manager. Individual goals are set based on KPMG's global expectations relating to professional expertise and other skills at the various experience levels. Each individual is evaluated with regard to achievement of individual goals, demonstrated skills and behaviours, as well as how he or she complies and acts according to the group's values. Results achieved and adherence to values and behaviour should correspond to the reward that the individual receives.

Measurement system for Quality and Compliance

KPMG has a measurement system ("Metrics") that covers all partners. Metrics is a "traffic-light system" that measures a range of parameters relating to compliance with policies and quality-related matters throughout the year. The results of the Metrics measurement are included in the basis for establishing individual remuneration.

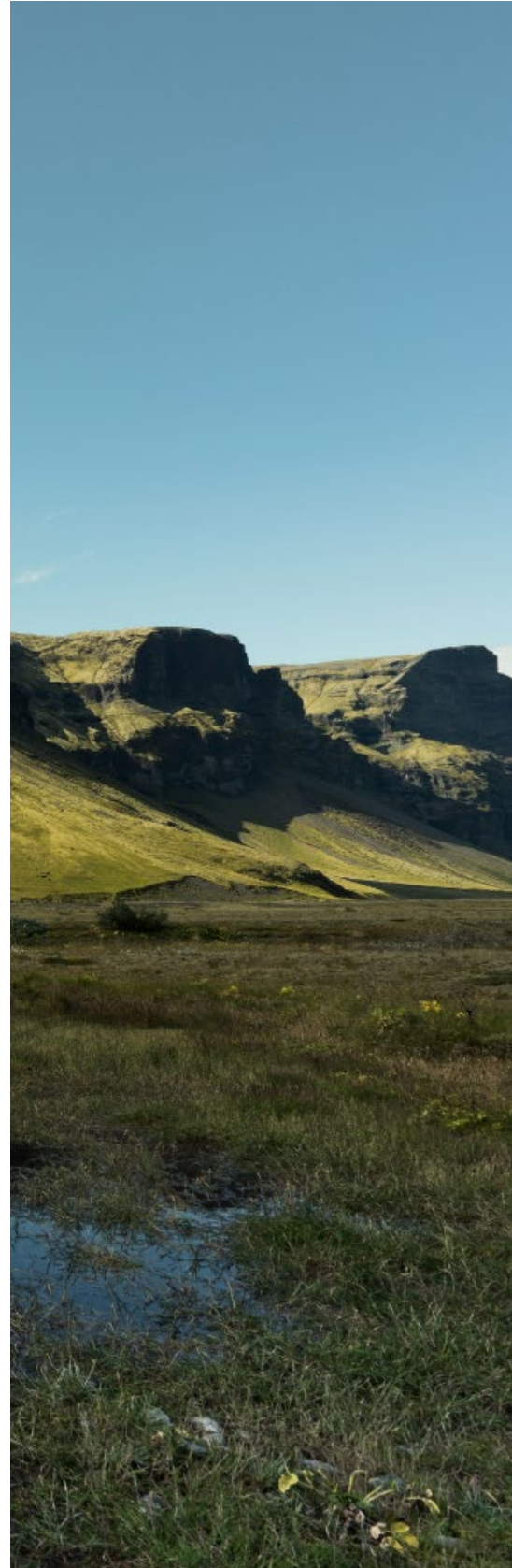
Promotions and partner admissions

Clear and well-established criteria and policies have been established for promotions at all levels of the organisation. Promotions are placed in a development perspective and processes start one year in advance. Individual career planning is an important and integral part of employee performance appraisals.



Results achieved and adherence to values and behaviour should correspond to the reward that the individual receives.

The procedure for admittance as partner includes a thorough evaluation of the candidate's performance, professional expertise and other skills required to fulfil the role as a partner of KPMG. The company's commercial goals and strategies are also assessed, along with the candidate's ability to contribute to these.



08

Independence

We attach significant importance to ensuring independence in dealings with our clients, and that our work and deliveries are characterised by integrity, high ethical standards and objectivity.

A key element of this work involves ensuring that partners and staff who serve clients do not find themselves in situations that could impact or raise doubts as to the auditor's independence and objectivity.

KPMG complies with the requirements governing independence established in the Icelandic Act on Auditors and Auditing and the Icelandic Institute of Public Accountants' ethical guidelines, which are based on the International Federation of Accountants' (IFAC's) "Code of Ethics for Professional Accountants". However, in cases where Icelandic Act imposes more stringent requirements than IFAC's regulations, the requirements of the Icelandic Institute of Public Accountants are adapted to those of the Icelandic Act. The IFAC's regulations are also incorporated into KPMG's global requirements and guidelines that apply to all member countries in the network. Since KPMG has to comply with several sets of rules governing independence, the company at all times adopts a principle of applying the most stringent regulation. The independence guidelines cover personal independence of individuals and their related parties, connections after a position has been vacated, partner rotation and approval of auditing and other services. The guidelines are closely monitored to ensure that they are updated in accordance with changes in regulations. Potential listed audit clients must undergo a process to verify and document a worldwide independence: the Independence Clearance Process (ICP). This process is supported by the Independence Clearance Checkpoint tool.

Independence and personal interests

All our employees undertake to ensure that they do not have any personal financial interests that contravene applicable laws and guidelines that apply

to our activities. Partners and managers in particular are monitored in this area using KPMG's global Independence Compliance System (KICS), in which everyone reports any personal or related parties' interests and changes in these.

Independence training and independence guidelines

The two most important pillars for ensuring that employees are familiar and comply with the independence regulations are an annual independence training (including a mandatory test



All our employees undertake to ensure that they do not have any personal financial interests that contravene applicable laws and guidelines that apply to our activities.

that must be passed) and a subsequent independence declaration, in which individuals issue an annual independence compliance confirmation regarding their compliance with the regulations.

The independence training and declaration are adapted to particular service areas and/or position levels in order to reflect special regulations and issues.

Rotation of audit partners

All responsible audit engagement partners are rotated every seventh year for public interest entities, including all listed companies. Other rotation rules may be established for other audit clients. Our guidelines have been drawn up so as to satisfy all applicable requirements, including the requirements of Article 21 of the Icelandic Auditors Act on rotation. Our

system monitors audit partners' service periods so that we can prepare timely rotation plans that ensure the audit company delivers an independent and high-quality audit overtime.

Non-audit services

KPMG has guidelines and policies to limit the services that can be performed for audit clients. These regulations and policies require partners who are involved in audit engagements to assess any threats that may arise in connection with non-audit services, and which security arrangements are in place to manage such threats. This prevents the provision of services to audit clients that could undermine the auditor's independence. KPMG International's in-house system, Sentinel, ensures that we comply with these guidelines.

The system enables partners who are involved in audit engagements to assess, and approve or reject, any proposed services to be delivered to audit clients and their associates by any firm in KPMG International.

Conflict of interests

Conflicts of interest can render it impossible for KPMG to accept a client or engagement. Sentinel is also used to identify and manage potential conflicts of interest in and across countries in KPMG International's network. Any identified issues relating to conflicts are resolved in consultation with other parties and the solution is documented in Sentinel. Conflicts that raise important questions of principle are escalated to the Quality & Risk Management Partner for an assessment and ruling.

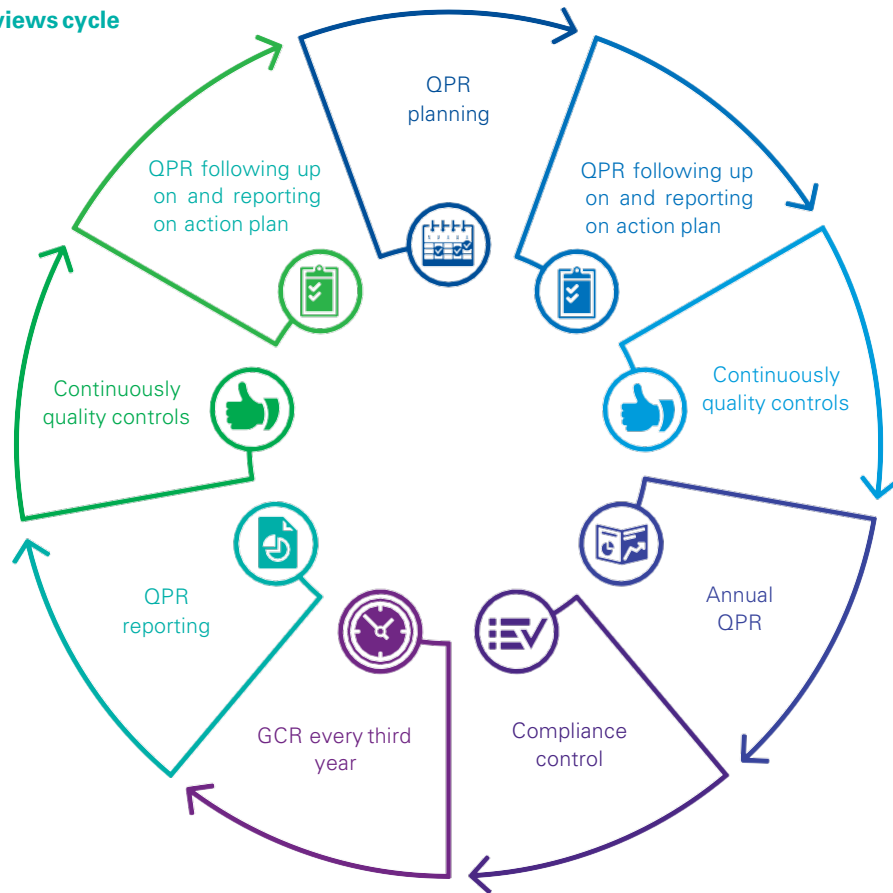
EU Audit Reform

The EU Audit Reform has entered into force in the EU, but is applicable in Iceland as of 1 January 2020. The changes include among others new rotation rules for audit companies and some changes to what services that can be delivered to public interest entities.

09

Periodic quality reviews

Quality reviews cycle



Internal quality control and monitoring

Internal monitoring

KPMG has extensive procedures for quality control based on the company's international guidelines, which fully comply with Icelandic requirements pursuant to ISQC 1 (International Standard on Quality Control).

Quality control comprises both national and international controls divided into two areas:

- review of compliance with national and international policies and guidelines
- engagement review of whether engagement partners comply with the requirements and guidelines

Annual review of compliance with policies and guidelines

Annual reviews are implemented for all KPMG's international and national procedures and guidelines. The results of such reviews are reported internationally. Subsequent evaluation and reviews have not revealed any material weaknesses. An action plan is prepared for any identified improvement points.

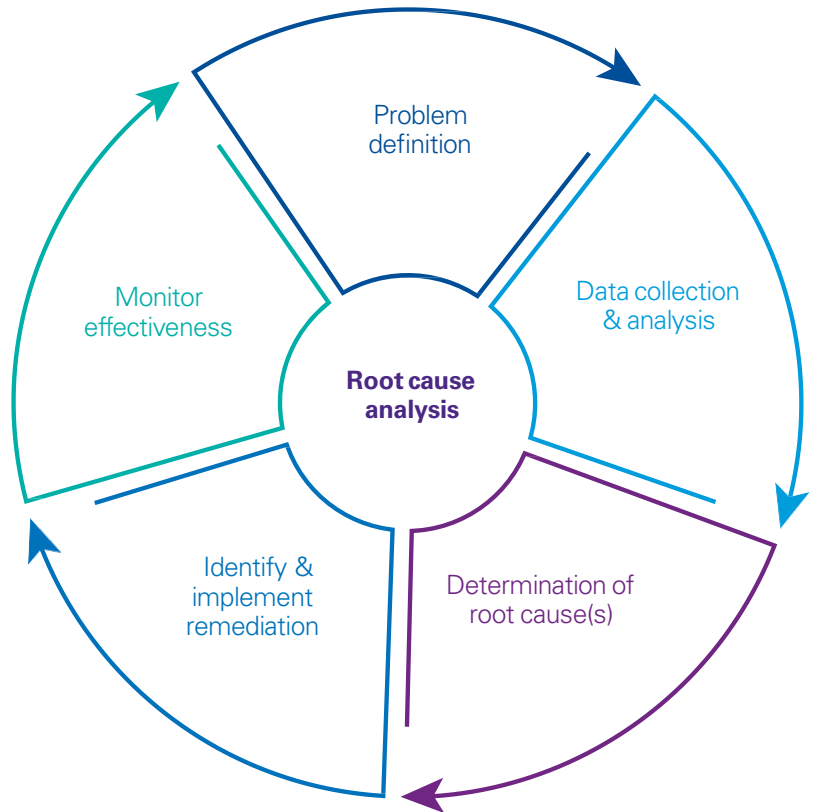
Annual Quality Performance Review (QPR)

The purpose of quality performance reviews is to help to further develop practical auditing methodology by identifying potential improvements. Quality reviews have the following objectives:

- evaluation of compliance with relevant standards
- assessment of technical and professional quality
- to improve quality by analysing results, identifying problem areas, clarifying causes of problem areas and rectifying causes
- testing of compliance with KPMG’s quality control guidelines

In accordance with KPMG’s international guidelines for quality control, all engagement partners are assessed at least once every three years. Engagements are selected for review based on a range of criteria, including risk and involvement of new clients or new partners. Reviews are performed by partners and managers with relevant experience, and who are independent of the audit engagement under review. The reviewers receive annual training.

A key element of KPMG’s quality reviews involves identifying the underlying causes of any weaknesses (root cause analysis). Based on the results of the quality review, necessary measures are implemented to raise the quality to the desired level. Such measures could include written communication, internal coaching, various types of aids, direct communication with the engagement teams, etc. Areas in which measures are implemented will also be accorded importance in subsequent quality reviews in order to measure the extent of improvements.



KPMG’s Global Compliance Reviews (GCRs)

Global Compliance Reviews are primarily based on our annual reviews of compliance with policies and guidelines. Following the review, a report is prepared that forms the basis for an action plan. GCRs are carried out a minimum of every three years with the next review scheduled for 2021.



A key element of KPMG’s quality reviews involves identifying the underlying causes of any weaknesses (root cause analysis).

External quality control and monitoring

In accordance with Section VII of the Icelandic Auditors Act, audit firms that audit the annual financial statements of companies subject to statutory audits shall be subject to quality reviews at least once every six years. In accordance with Section VIII of the same Act, audit firms that audit public interest entities shall be subject to quality reviews at least once every three years. As a minimum, the quality review shall include an assessment of independence, resource utilisation, audit fees and audit execution, as well as the company's internal quality control systems.

10

Declaration
from the
Board of
Directors

The Icelandic Act on Auditors and Auditing stipulates that audits shall be performed in accordance with best judgement and generally accepted auditing practice. Detailed provisions on the establishment and maintenance of quality control systems in auditing firms are established in the ISQC 1 standard – Quality control of firms that perform audits and reviews of financial statements, and other assurance and related services engagements.

The Board of KPMG ehf. believes that the company's quality management system is appropriately designed to ensure compliance with requirements governing independence, objectivity and ethics

in accordance with the Icelandic Act on Auditors and Auditing and associated regulations, the IFAC's "Code of Ethics for Professional Accountants", the Icelandic Institute of Public Accountants' ethical regulations and KPMG's international guidelines.

While these regulations overlap to a large extent, in cases of conflict the most stringent of the regulations will apply.

The Board of KPMG ehf. has reviewed the reports from internal and external quality reviewers and monitoring measures. On this basis, the Board believes that KPMG's quality control system functions satisfactorily and that the company satisfies guidelines on auditors' independence.

Reykjavík, June 2020

**Svanbjörn
Thoroddsen**



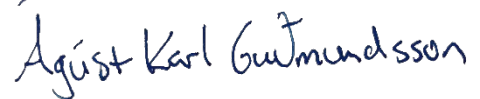
**Hlynur
Sigurðsson**



**Kristrún H.
Ingólfssdóttir**



**Ágúst Karl
Guðmundsson**



**Hrafnhildur
Helgadóttir**



11

Partner remuneration

Partners' remuneration is established once a year. Remuneration is defined as a share of KPMG's overall result that is allocated to the individual partner.

The main purpose of the remuneration model is to motivate, recognise and reward partners based on their individual contribution to the company's performance. It is important that the model inspires desired behaviours consistent with KPMG's strategies, goals and values.

The total remuneration consists of two elements: specifically agreed remuneration and a share of profits. Remuneration paid to individual partners is linked to KPMG Iceland's overall result and individual partners' contributions. Measurable results relating to quality and compliance and other matters are directly reported to the Compensation Committee by the Quality & Risk Management Partner, and are included in the evaluation.

KPMG's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients, as such incentives could jeopardise the

auditor's independence. However, it is important that objectives are established to ensure that experts from the firm's Advisory team are included in the audit team in order to improve the quality of the audit and the overall service delivery.

Shareholders meeting elects a Compensation Committee that performs an overall review of each partner's remuneration and provides feedback to each individual partner. The partners may appeal the remuneration set by the Compensation Committee. The Partner Committee establishes the final remuneration. The general remuneration process is transparent, and individual partners' final remuneration (but not the assessment basis for each partner) is disclosed to the group of partners as a whole.

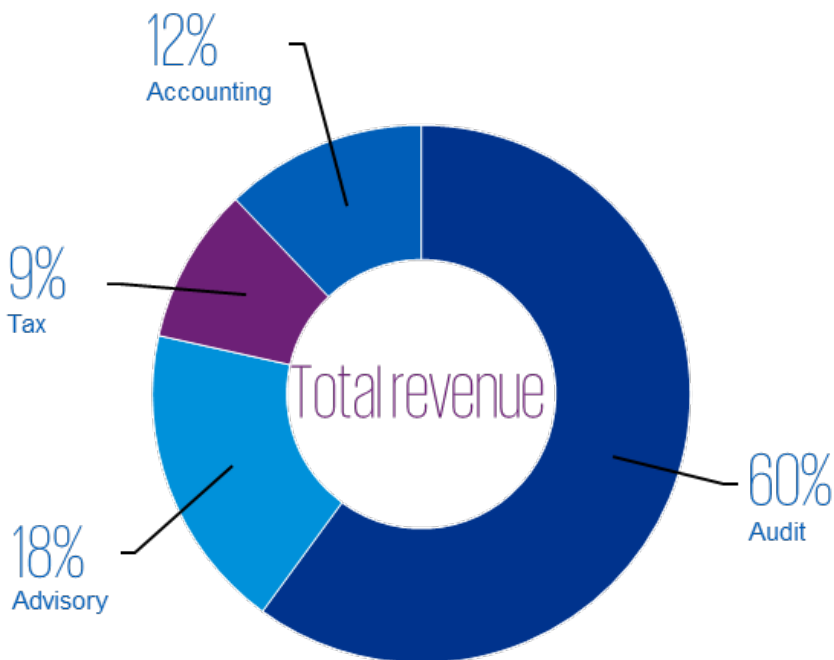
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Public interest entities

Public interest entities*
audited by KPMG in the
past financial year (FS
2018 audited in 2019).

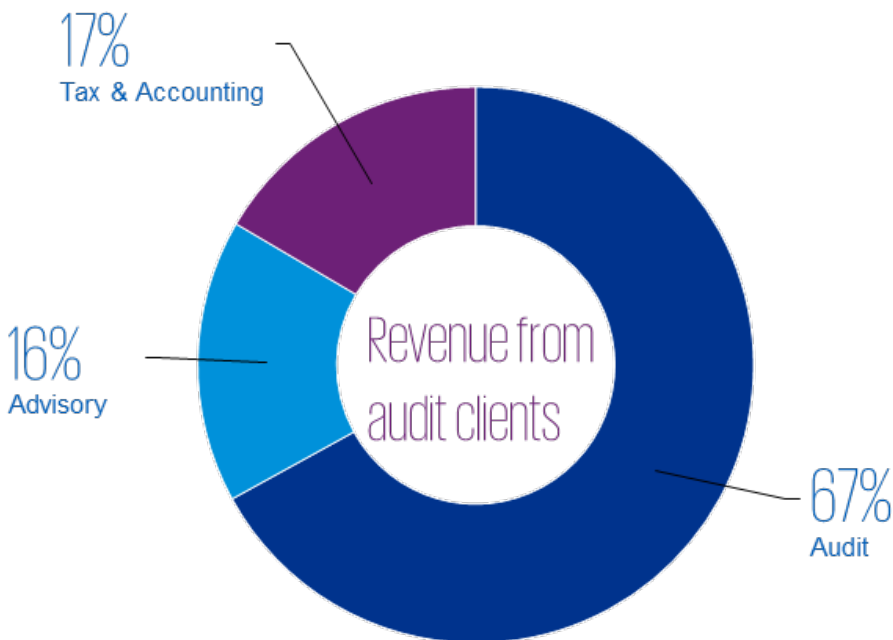
.....
Alda Credit Fund slhf. (AAM GLEQ)	Mosfellsbær
.....
Atom (sjóður GAMMA)	Norðurslóð 4 ehf.
.....
Eik fasteignafélag hf.	Origo hf.
.....
Eimskipafélag Íslands hf.	Rangárþing ytra
.....
Fagfjárfestastjóðurinn ÍSH (sjóður Júpiters)	REG3A fjármögnun (sjóður Júpiters)
.....
Farice ehf.	Reginn hf.
.....
FÍ Fasteignafélag slhf.	Reitir fasteignafélag hf.
.....
Fjarðabyggð	SIV fjármögnun (sjóður GAMMA)
.....
Fljótisdalshérað	Síminn hf.
.....
Garðabær	Sjóvá-Almennar líftryggingar hf.
.....
Heimavellir hf.	Sjóvá-Almennar tryggingar hf.
.....
Icelandair Group hf.	Skeljungur hf.
.....
Íbúðalánastjóður	Sparisjóður Austurlands
.....
Klappir Grænar Lausnir hf.	Sparisjóður Strandamanna
.....
Landfestar ehf.	Veðskuld slhf.
.....
Lífeyrissjóður verkfræðinga	Veðskuldabréfasjóðurinn Virðing (sjóður Júpiters)
.....
Marel hf.	Vestmannaeyjabær
.....
Méllon (sjóður GAMMA)	Vopnafjarðarhreppur
.....

* Icelandic Auditors Act, Article 2



Total revenue

Revenue per business unit, MISK	%	2018/19
Audit	60%	3.063
Advisory	18%	694
Tax	9%	479
Accounting	12%	618
Total	100%	5.101



Revenue to audit clients

Revenue per business unit, MISK	%	2018/19
Audit	67%	1.791
Other assurance services	16%	440
Advisory	17%	442
Total	100%	2.673

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Financial information

Reykjavík	Borgartúni 27
Akranes	Kirkjubraut 28
Akureyri	Glerárgötu 24
Blönduós	Húnabraut 13
Borgarnes	Bjarnarbraut 8
Dalvík	Ráðhúsi
Egilsstaðir	Fagradalsbraut 11
Hafnarfjörður	Reykjavíkurvegi 66
Hella	Þrúðvangi 5
Höfn í Hornafirði	Litlubrú 1
Reyðarfjörður	Austurvegi 20
Reykjanesbær	Krossmóa 4
Sauðárkrókur	Borgarmýri 1a
Selfoss	Austurvegi 4
Stykkishólmur	Aðalgötu 5
Vestmannaeyjar	Ægisdötu 2

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Our offices

