Valitor hf.

Consolidated Financial Statements

2020

Valitor hf.*
Dalshraun 3
220 Hafnarfjordur

Reg. no. 500683-0589

*Valitor hf. and Valitor Holding hf. were merged in 2020, see note 1

Contents

Endorsement by the Board of Directors and CEO

Operations 2020

These Consolidated Financial Statements for Valitor hf. (referred to as the Company or the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements according to Icelandic Act no. 3/2006 on annual accounts.

Valitor is an international payment solutions company which provides its customers with diverse services in the field of acquiring, gateway and point of sale services and issuing. Valitor is an acquirer for Visa, MasterCard and AMEX and provides payments services directly to merchants in Iceland and the UK as well as to international payment partners who in turn service merchants throughout Europe. Issuing Solutions provide Visa issuing services to Icelandic banks and will focus on offering processing services in Europe.

Valitor has reached several important milestones during the year with well suggeeded extensive restructuring to strengthen the business for the future. The operational structure has been simplified and number of cost saving projects have been completed where decrease in salaries and other operational expenses amounts ISK 1.8 billion between years. Gross profit has on the other hand only decreased by ISK 200 million.

The Company's financial structure was also strengthened during the year with conversion of loans to equity in March. The Company made certain shifts in focus which were designed to strengthen its core business. Valitor had been unprofitable since 2014, except for the positive one-off effect of the sale of the Company's shares in Visa Europe in 2016, and it was clear, action was needed to revert that situation. The main emphasis in Valitor's general strategy for 2021-2023 will be standardization, simplification and efficiency along with building a strong partnership model on the acquiring side. With appropriate strategic initiatives and actions, the result will be operational cost reductions, a focused off-the shelf product offering and a positive effect on the profitability of the Company.

The Company's Omni Channel business in Denmark was sold in May and related operations in the UK were sold at the beginning of June. These sales were vital steps towards the turnaround in the Company's financial performance.

Valitor hf. was granted a new regulatory license as a Payment Institution by the Icelandic Financial Supervisory Authority of the Central Bank on 27 January 2020. The new license was issued under the provisions of Act no. 120/2011 on Payment Services, replacing the Credit undertaking license held, which expired on 29 February 2020. With the new authorisation Valitor hf. will continue to be regulated by the Icelandic Financial Supervisory Authority of the Central Bank as a payment institution and will still be able to offer payment services. The new regulatory license has been passported within the EEA countries and to the United Kingdom under the temporary permission regime.

Valitor hf. and its Parent company Valitor Holding hf. merged under the name of Valitor hf. on the 30 September 2020 to simplify the Groups structure. Valitor Holding hf. served previously as the Parent company of the Group with no operation other than investments in shares. Valitor hf. acts now as the Parent company of the Group. The merger was approved on Shareholder meeting 21 December 2020.

The COVID-19 pandemic has affected revenues deeply, as well as earlier targets of improving operations. The turnaround is expected to take longer than originally forecasted. On the other hand has the Net Delayed Delivery Exposure decreased significantly from prior year. The decrease is directly related to the COVID-19 pandemic and the reduction in pre payments seen predominantly in the travel and tourism sectors. The Group's total comprehensive loss during the year amounted to ISK 1,039 m. according to the Consolidated Statement of Comprehensive Income. The equity of the Group at the end of the year amounted to ISK 7,315 m.

During the year the Group had on average of 251 full-time equivalent positions and paid total of ISK 3,766 m. in salaries. The gender ratio of the Board of Directors were 60% male and 40% female. Valitor supports gender equality and positive changes were made in the gender diversification on Executive Directors level where at then end of the year, 43% were female and 57% male. Herdis Drofn Fjeldsted was appointed CEO of the Company at the end of March 2020, after having been Chairman of the Board of Directors since October 2019. Harpa Vifilsdottir, which had been serving as Head of Accounting since 2016 was appointed CFO and Gunnar Sigurjonsson was appointed COO after serving in leader positions within the Company since 2013.

Valitor hf. is a subsidiary of Arion Bank hf., with a share capital of ISK 2,350 m. and is fully owned by Arion Bank and related companies. The Board of Directors proposes that net loss will be added to equity and that no dividend will be paid in 2021 for the fiscal year 2020.

Future Prospects

The equity ratio is at year end 27.8%. The Board of Directors and the CEO believe it is necessary to maintain sufficient equity in order to support the Group's operations and meet unexpected events.

The Board of Directors has assessed the going concern of the Group and is satisfied that the Group has the resources to continue in business in the foreseeable future (see also note 30). The coronavirus is having significant impact on businesses and the economy all over the world. Valitor, like other companies is facing great challenges, many of our customers are going through difficult times where the impact of the virus will affect the revenues of Valitor and create a risk for the Group as well as for our customers. Management has been monitoring the operation closely. The Group's future operating return is also affected by operating requirements set by official authorities and the card associations. Significant changes to current operating conditions may affect the Group's financial return.

Risk Management

The Group faces various risks associated with its operating as financial undertakings that stem from their daily operations. Risk management is therefore a fundamental part of the Group's operations. The main pillars of active risk management are identification of risk, numerical quantification of the risks identified, the actions taken to mitigate or eliminate those risks and active monitoring. Note 6 in the accounts further discusses the risk management of the Group.

Trust and integrity are key factors for our Group, as Valitor hf. is guarding and processing funds for individuals and organisations. Cyber security risks are ranked high in our priorities and focus is to ensure the confidentiality, integrity and availability of information systems and data. Valitor has established fundamental security policies and processes which are integrated into operational processes and enforced by security awareness training. The Board of Directors and Management recognize the importance of information security and the threat that cyber risks pose with a strong desire to face these challenges and a willingness to make changes where required.

Corporate Governance

The Board of Directors of Valitor operates under both regulatory requirements and industry approved guidance on good coporate governance in order to ensure continued quality operation of the Groups corporate governance and values. Good corporate governance contributes to open and reliable relations between employees, the Board, Shareholders, customers and other stakeholders. Corporate governance at Valitor provides the foundation for responsible management and decision-making. The corporate governance of Valitor is based on relevant laws and regulations as well as accepted guidelines that are in effect at the time the Group's annual accounts are approved by the Board.

Valitor values and code of ethics

It is important to Valitor that its employees are able to identify with and support the Company’s values. Valitor has three core values: trust, collaboration, and excellence. The most valuable assets of a financial institution are trust and integrity, values upheld by all its employees. This is how Valitor wishes to operate.

There was a strong focus on equality during the year and at year-end the gender ratio was more evenly balanced than at any time, with 53% of employees being men and 47% women. The company’s executive management now has three women and four men. During the year Valitor was recognised by the Equality Scale initiative and has had equal pay certification since 2019.

In 2020 Valitor adopted a new remote work policy. One of its aims is to reduce the amount of pollution by having fewer people travel to and from work, and to cut down on the number of unnecessary business trips abroad. Valitor endeavors to lead by example on environmental issues. The objective is to minimize the negative environmental impact of the business by nurturing sustainability in both internal and external activities. Valitor has been a signatory to City of Reykjavík and Festa’s Declaration on Climate Change since November 2015. Since 2017 Valitor has methodically worked on reducing the company’s carbon footprint and entered a partnership with Klappir Green Solutions in order to better map its ecological footprint.

Anti-Bribery and Corruption

Valitor operates within the highly regulated payments space of the EU/EEA and the UK under strict supervision of both the Icelandic FSA and the FCA, and have in place a written policy and internal controls to mitigate the risk of bribery and corruption risk. Due to nature of Valitor's operations and the controls in place, Valitor employees are not considered likely to be subjected to high bribery or corruption risk, subject to on-going monitoring of the relevant risk within Valitor. Valitor provides its employees with the relevant training and working procedures to comply with all regulatory requirements which apply to the firm, so employees know their responsibilities and where to look for information about the anti-bribery and corruption measures.

Another measure Valitor applies with reference to combating anti-bribery and corruption, is the screening of customers when on-boarded and also on an ongoing basis, against available lists of politically exposed persons, in accordance with anti-money laundering legislation, and the application of relevant enhanced due diligence and monitoring if applicable.

Measures against Anti-Money Laundering and terrorist financing

Valitor has adopted an Anti-Money Laundering policy, procedures and rules in accordance with Act No. 140/2018, on Measures to Prevent Money Laundering and Terrorist Financing, which is based on Directive 849/2015 of the European Parliament and the revised Financial Action Task Force´s (FATF's) Recommendations and also measures to comply with the UK Money Laundering regulations No. 692/2017.

The objective of the policy, procedures and rules is to seek to prevent the use of the operations and activities of Valitor, or those of its subsidiaries, for the purpose of money laundering or terrorist financing.

Social responsibility

Valitor realises that the Group not only has an economic impact on their local environment, but a high environmental and social impact as well. Valitor has always seen social responsibility, which includes not violating human rights and acting mindfully in its business dealings, as a guiding principle, both in internal and external conduct and actions including the Group's relationship with employees, customers, service providers and with the larger community.

Valitor's policy is to be a model for environmental issues, and the goal is to minimise the Company's negative environmental impact by practicing sustainability. A significant component in this endeavour is to contribute to the reduction of greenhouse gas emissions in the battle against global warming. Valitor has endorsed the climate statement of Festa (the Icelandic center of corporate social responsibility) and the City of Reykjavík and has defined its objectives in this field.

Through Valitor's Social Fund, established by Valitor hf in 1992, Valitor also supports important issues that enhance the local community and society. The Fund provides grants to charity and cultural associations, young artists, and various nation-wide projects. Valitor also participates in several partnerships with sports and outdoor organisations.

Endorsement by the Board of Directors and CEO, contd.:

Endorsement by the Board of Directors and CEO

According to the best knowledge of the Board of Directors and the CEO, the Group's Consolidated Financial Statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. Furthermore, it is the opinion of the Board of Directors and the CEO that the Consolidated Financial Statements give a fair view of assets, liabilities and financial position as of 31 December 2020, and its operating return and changes in cash during the year 2020.

Furthermore, it is the opinion of the Board of Directors and the CEO that the Consolidated Financial Statements and the endorsement by the Board of Directors include a fair overview of the development and results in the Group's operation, its position, and describes the main risk factors and any uncertainty that the Group may face.

The Board of Directors and the CEO of Valitor hf. have today discussed the Company's Consolidated Financial Statements for the year 2020 and confirm them with their signatures. The Board of Directors and the CEO submit the Consolidated Financial Statements to the Annual General Meeting for approval.

Hafnarfjordur, 23 February 2021

The Board of Directors:

Thor Hauksson
Chairman of the Board

Gudfinna Helgadottir

Renier Lemmens

Roger Alexander

Synnöve Trygg

Herdis Fjeldsted, CEO

Independent Auditor's Report

To the Board of Directors and Shareholders of Valitor hf.

Opinion

We have audited the Consolidated Financial Statements of Valitor hf. for the year ended December 31, 2020 which comprise the Consolidated Statement of Comprehensive Income for the year 2020, the Consolidated Statement of Financial Position as at 31 December 2020, the Consolidated Statement of changes in Equity for the year 2020, the Consolidated Statement of Cash Flows for the year then ended and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the Consolidated Financial position of Valitor hf. as at December 31, 2020, and its Consolidated Financial Performance and its Consolidated Cash Flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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. We are independent of Valitor hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the Corporate Governance statement and the Endorsement by the Board of Directors and CEO.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying Report of the Board of Directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the Consolidated Financial Statements.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and the CEO are responsible for assessing Valitor hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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 ISAs 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 ISAs, 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 Valitor hf.'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 Company’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 Company 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 and Separate 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 the Board of Directors and the Audit Committee 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.

Kopavogur, 23 February 2021

Deloitte ehf.

Ingvi Björn Bergmann
State Authorised Public Accountant

Consolidated Statement of Comprehensive Income for the year 2020

	Notes	2020	2019
Transaction service income			
Acquiring income		9,877,566	8,849,367
Issuing income		1,936,380	3,439,567
Total transaction service income		11,813,946	12,288,934
Other income			
Acquiring income		1,303,265	2,041,734
Issuing income		844,064	1,549,136
Total other income		2,147,329	3,590,870
Total operating income	5b	13,961,275	15,879,804
Cost of sales			
Interchange and scheme fees		6,288,056	7,170,773
Other cost of sales		2,943,786	3,785,846
Total cost of sales		9,231,842	10,956,618
Gross profit		4,729,432	4,923,185
Operating expenses			
Salaries and salary-related expenses	8	3,238,518	3,855,895
Depreciation and amortisation	18	1,102,600	1,257,441
Other operating expenses	9	1,529,557	2,736,947
Compensation payment		0	1,239,901
Total operating expenses		5,870,676	9,090,184
Operating loss		(1,141,243)	(4,166,998)
Financial income and (expenses)			
Financial income		34,168	44,332
Financial expenses		(267,976)	(230,052)
Net income on financial assets and liabilities		30,688	191,109
Total financial income and (expenses)	11	(203,120)	5,388
Loss before tax		(1,344,363)	(4,161,611)
Income tax	12	142,480	487,344
Loss from continuing operations		(1,201,883)	(3,674,267)
Discontinued operations			
Loss from discontinued operations	17	(169,155)	(5,848,310)
Loss for the year		(1,371,038)	(9,522,577)
Other comprehensive income			
Items that may be reclassified subsequently through profit or loss			
Foreign exchange difference on translation of foreign operations		331,554	(17,194)
Other comprehensive income for the year		331,554	(17,194)
Total comprehensive loss for the year		(1,039,484)	(9,539,771)

Notes on pages 13 to 41 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Valitor hf. 2020 9 Amounts are in ISK thousand

Consolidated Statement of Financial Position as at 31 December 2020

	Notes	2020	2019
Assets			
Non Current Assets			
Property, plant and equipment	18	363,299	540,169
Intangible assets	19	3,188,962	3,311,613
Right of use assets	20	482,805	867,848
Deferred tax assets	25	478,569	294,430
Total Non Current Assets		4,513,635	5,014,060
Current Assets			
Cash and cash equivalents	14	16,878,270	19,847,877
Receivables from issuing banks		140,530	1,956,847
Receivables from card schemes		1,666,072	4,880,323
Accounts and other receivables	21	1,208,648	1,708,734
Loans	15	1,877,961	2,052,640
Financial assets at fair value	16	70,107	93,548
Assets associated with disposal groups	17	0	579,316
Total Current Assets		21,841,588	31,119,285
Total Assets		26,355,222	36,133,345
Equity and Liabilities			
Equity			
Share capital		2,350,000	400,000
Share premium		100,000	1,614,189
Capitalised development cost		1,722,081	1,899,844
Other reserves		725,613	394,060
Retained earnings		2,416,889	545,975
Total Equity	27	7,314,583	4,854,068
Non Current Liabilities			
Lease liability	22	435,534	797,456
Deferred tax liabilities	25	34,367	43,790
Total Non Current Liabilities		469,902	841,246
Current Liabilities			
Settlement obligations	5q	16,740,470	23,396,666
Payable to credit institutions	23	0	1,745
Financial liabilities	16	0	25,908
Lease liability	22	70,406	92,085
Borrowings	24	0	3,500,000
Accounts payable and other liabilities	26	1,759,861	2,476,472
Liabilities associated with disposal groups	17	0	945,155
Total Current Liabilities		18,570,736	30,438,031
Total Liabilities		19,040,638	31,279,277
Total Equity and Liabilities		26,355,222	36,133,345

Notes on pages 13 to 41 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Valitor hf. 2020 10 Amounts are in ISK thousand

Consolidated Statement of Changes in Equity for the year 2020

2020		**Restricted equity**				
	Share capital	**Share premium**	**Capitalised development cost**	**Other reserves**	**Retained earnings**	**Total**
Equity as at 1 January 2020	400,000	1,614,189	1,899,844	394,060	545,975	4,854,068
Loss for the year	0	0	0	0	(1,371,038)	(1,371,038)
Changes in reserves	0	0	(177,763)	0	177,763	0
Other compreh. inc. for the year .	0	0	0	331,554	0	331,554
Total comprehensive income	0	0	(177,763)	331,554	(1,193,275)	(1,039,485)
Equity increase during the year ..	3,500,000	0	0	0	0	3,500,000
Merger during the year	(1,550,000)	(1,514,189)	0	0	3,064,189	0
Equity as at 31 December 2020 .	2,350,000	100,000	1,722,081	725,613	2,416,889	7,314,583

2019		**Restricted equity**				
	Share capital	**Share premium**	**Capitalised development cost**	**Other reserves**	**Retained earnings**	**Total**
Equity as at 1 January 2019	400,000	1,614,189	1,675,519	411,254	10,292,877	14,393,839
Loss for the year	0	0	0	0	(9,522,577)	(9,522,577)
Changes in reserves	0	0	224,325	0	(224,325)	0
Other compreh. inc. for the year .	0	0	0	(17,194)	0	(17,194)
Total comprehensive income	0	0	224,325	(17,194)	(9,746,902)	(9,539,771)
Equity as at 31 December 2019 .	400,000	1,614,189	1,899,844	394,060	545,975	4,854,068

The Icelandic Financial Statements Act no. 3/2006 requires that retained earnings are separated into two categories: restricted and unrestricted equity. Unrestricted equity consist of undistributed profits and losses accumulated by the Group, less transfers to the Group's statutory reserve and other restricted equity categories. Valitor hf., has transferred its capitalised development cost net of depreciation to a restricted retained earnings account.

Notes on pages 13 to 41 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Valitor hf. 2020 11 Amounts are in ISK thousand

Consolidated Statement of Cash Flows for the year 2020

	Notes	2020	2019
Cash flows from operating activities			
Loss for the year		(1,371,038)	(9,522,577)
Operating items not affecting cash flows:			
Gain on sale of assets		(80,197)	(557)
Depreciation and amortisation	18.19	1,102,600	5,381,243
Changes in right of use assets / lease liability		(9,618)	0
Financial income and expense, fair value change of financial assets		115,909	77,322
Income tax	12	(142,480)	(487,344)
Operating activities total		(384,824)	(4,551,912)
Changes in operating assets and liabilities:			
Settlement obligation, change		(7,273,058)	(3,583,617)
Loans, change		174,679	205,801
Other operating assets, change		5,163,738	763,448
Other operating liabilities, change		(738,520)	108,972
Changes in operating assets and liabilities total		(3,057,984)	(7,057,308)
Financial income received		34,168	66,248
Financial expense paid		(228,377)	(264,149)
Cash flows to operating activities		(3,252,193)	(7,255,209)
Cash flows from investing activities			
Investment in intangible assets	19	(437,441)	(1,233,533)
Investment in property, plant and equipment	18	(115,828)	(281,344)
Proceeds from sales of property, plant and equipment	18	17,200	4,943
Proceeds from sale of subsidiary		(226,109)	0
Investment in subsidiary		(298,732)	0
Disposal of discontinued operation, net of cash disposed of	17	879,876	346,146
Investing activities		(181,034)	(1,163,787)
Cash flows from financing activities			
New borrowings	24	0	3,500,000
Payable to credit institutions, change		(117,619)	(6,483)
Payment of lease liabilities		(160,171)	(121,831)
Financing activities		(277,790)	3,371,686
Cash and cash equivalents, change		(3,711,016)	(5,047,310)
Effect of exchange rate fluctuations on cash held		741,409	585,493
Cash and cash equivalents at the beginning of the year		19,847,877	24,309,694
Cash and cash equivalents at year end	14	16,878,269	19,847,877
Investing and financing activities not affecting cash flows:			
Convertion of debt to equity		(3,500,000)	0
Repayment of borrowings		3,500,000	0
Disposal of discontinued operation, net of cash disposed of		454,035	0
Disposal of discontinued operation, net of cash disposed of		(454,035)	0

Notes on pages 13 to 41 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Valitor hf. 2020 12 Amounts are in ISK thousand

Notes to the Consolidated Financial Statements

General information

1. Reporting entity

Valitor hf. (Valitor) is a limited liability company incorporated and domiciled in Iceland. The address of its registered office is Dalshraun 3, Hafnarfjordur, Iceland. Its ultimate controlling party is Arion Bank hf. The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as "the Company" or "the Group").

Valitor Holding hf. and its subsidiary Valitor hf. were merged together on 30 September 2020, under the name of Valitor hf. Valitor Holding hf. was the Parent company of the Group with no operation other than investments in subsidiaries. This merger was executed to simplify the Groups structure. The merger was approved on Shareholder meeting 21 December 2020 and Valitor Holding hf. was liquidated in January 2021. As the above transaction is a transaction between entities that are ultimately controlled by the same party or parties it is defined as a common control transaction and accounted for in this Consolidated Financial Statements at carry over basis. The Consolidated Financial Statement is therefore including the operation of Valitor Holding hf. and Valitor hf. and its subsidiaries for the year 2020. Comparative figures in this Consolidated Financial Statements remain unchanged from the Consolidated Financial Statement of Valitor Holding hf. from prior year.

The Company is an international payment solutions company dedicated to helping merchants, partners and consumers to make and receive payments. The Company offer a single connection for payments of all kinds, from in-store through online and everything in-between. The Company has principal membership of Visa and Mastercard and has an excellent track record providing acquiring, issuing and gateway services to partners and merchants across Europe.

Valitor hf. was granted a new regulatory license as a Payment Institution by the Icelandic Financial Supervisory Authority of the Central Bank on 27th January 2020. The new license was issued under the provisions of Act no. 120/2011 on Payment Services, replacing the Credit undertaking license held, which expired on 29 February 2020. With the new authorisation Valitor hf. will continue to be regulated by the Icelandic Financial Supervisory Authority as a payment institution and will still be able to offer payment services. The new regulatory license has been passported within the EEA countries and to the United Kingdom under the temporary permission regime.

The Consolidated Financial Statements were approved and authorised for issue by the Board of Directors of Valitor hf. on 23 February 2021.

2. Basis of preparation

a) Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act no. 3/2006.

The same accounting policies, presentation and methods of computation are followed in these Financial Statements as were applied in the Financial Statements for the year ended 31 December 2019 for Valitor Holding hf.

b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial assets that are measured at fair value at the end of each reporting period as explained in note 5.i)(iv). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

c) Basis of consolidation

Control is defined as when the Group has power over over the investee, is exposed or has rights to variable returns from its involvement with the investee and at the same time has the ability to use its power to affect its returns. The Group reassess whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the investee and ceases when the Company loses control of the investee. Specifically, the results of investee acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the investee.

c) Basis of consolidation, contd.:

Where necessary, adjustments are made to the Consolidated Financial Statements of subsidiaries to bring the accounting policies used into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Valitor International Ltd. and Iteron Holding Ltd. take advantage of section 479a of the UK's Companies Act 2006 in respect of exempting the companies from the requirement to have statutory audited Financial Statements for the period ended 31 December 2020.

d) Functional and presentation currency

The Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the Company's presentation currency. For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group’s foreign operations that have other functional currency than ISK are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for every month during the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in other reserves in equity.

At the end of the period the official mid exchange rate by the Central Bank of Iceland of the ISK against the GBP was 173.55 and 20.98 for the DKK (31/12/2019: GBP 159.42 and DKK 18.18). The average exchange rates for the period were 173.59 for GBP and 20.731 for DKK (2019: GBP 156.55 and DKK 18.39).

e) Use of estimates and judgements

The preparation of Consolidated Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. This estimate and related presumptions are based on experience and various other factors that are considered reasonable under the relevant circumstances and form a basis for decisions made on the book value of assets and liabilities not available by other means. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Further information regarding the use of judgement and estimates is disclosed in note 5. o).

3. The Group

Shares in main subsidiaries in which Valitor hf. held a direct interest at the end of the year:

			Equity interest	
	Principal Activity	**Currency**	**2020**	**2019**
Valitor Int ehf.	Dormant	ISK	100%	100%
Valitor International Ltd.	Dormant	GBP	100%	100%
Valitor Ltd.	Payment solutions	GBP	100%	100%
Vildarkerfi ehf.	Dormant	ISK	100%	100%
Iteron Holding Ltd.	Holding company	GBP	100%	100%
Markadis Ltd.	Dissolved	GBP	0%	100%
Valitor UK Ltd.	Sold from the Group	GBP	0%	100%
Valitor A/S	Sold from the Group	DKK	0%	100%
Iteron Holding DK ApS.	Sold from the Group	DKK	0%	100%
Altapay Gmbh.	Sold from the Group	EUR	0%	100%
Altapay Inc.	Sold from the Group	USD	0%	100%

During the year, all the Danish operation was sold from the Group as of 1 May 2020. Valitor UK Ltd. was sold from the Group as of 12 June 2020 and Markadis Ltd. was dissolved during the year. Markadis Ltd. had been dormant since 2017. See further note 17.

Consolidated Financial Statements of Valitor hf. 2020 14 Amounts are in ISK thousand

4. Changes in accounting policies

The Group has implemented amendments to IFRSs applicable for reporting periods beginning on or after 1 January 2020. See further under note 5.t).

5. Significant accounting policies

a) *Foreign currency*

Transactions in foreign currencies are translated at the exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Other assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised through profit or loss.

b) *Revenues*

The revenues in the Group are comprised of either transaction service income or other income not transaction based. Valitor collects fees and commission from domestic and international customers. The revenues are based on volume amount processed, per transaction processed, account on file fees or subscription fees. Valitor offers standard POS, acquiring and Ecom as well as unique gateways and acquiring solutions enabling customers to deploy the Valitor solution for all sales channels in multiple countries at the same time, a single platform serving all international customers. Revenues are realised in Valitor's systems as soon as they are earned.

(i) Transaction service income

Acquiring income, transaction based

For transaction service acquiring income the following represent the main income categories:

- Merchant service charge
- Gateway fee

Issuing income, transaction based

For transaction service issuing income the following represent the main income categories:

- Processing fees
- Load fees
- Currency exchange services

(ii) Other income

Acquiring income, other

For other acquiring income the following represent the main income categories:

- Terminal income (POS)
- Interest income on loans
- Interest income on merchant float

Acquiring customers of Valitor hf. in Iceland receive either monthly settlements, where turnover is paid out on the first working day of the following month, or they receive daily settlements. The term income is defined as gross inflows of economic proceeds during the period arising in connection with core company operations which lead to increase in equity. The capital gains which Valitor benefits from on funds settled monthly with acquiring customers are thus part of core company operations, as these interests are directly related to when settlement is made. Valitor is able to use capital from the funds of customers that Valitor receives daily and are paid out monthly and can thus offer clients with monthly statements better terms than those receiving daily settlements. Quotes on business rates take into account the interest conditions at the time with the aim of insuring that Valitor is equally well protected whether a merchant receives daily or monthly settlements.

Issuing income, other

For other issuing income the following represent the main income categories:

- Currency exchange services

5. Significant accounting policies contd.:

c) *Discontinued operations*

Discontinued operations is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year. The Group has applied its judgment in measuring the fair value less cost to sell of the disposal groups classified as held for sale, see also note 17.

d) *Financial income and expenses*

Financial income and expenses are recognised in profit or loss in the Consolidated Statement of Comprehensive Income using the effective interest method on the date they are incurred.

f) *Income tax*

Income tax in the Consolidated Financial Statements comprises current and deferred tax. Income tax is recognised through profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or other comprehensive income when applicable. Income tax that has been recognised in other comprehensive income is transferred to profit or loss if and when related items have been reclassified from other comprehensive income to profit or loss.

Current tax is the expected tax payable next year on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

g) *Cash and cash equivalents*

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of cash, demand bank deposits and money market funds. Cash and cash equivalents comprises balances with less than three months maturity from the date of acquisition. Cash and cash equivalents is carried at amortised cost in the Statement of Financial Position.

h) *Financial assets and liabilities*

(i) Recognition

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. All interests arising upon transfer of financial assets in the hands of the Group are recognised as separate assets and liabilities.

A financial liability is derecognised when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends to settle on a net basis.

5. Significant accounting policies contd.:

i) Classification of financial assets

(i) Financial assets measured at amortised cost

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's cash, restricted cash and loans and receivables from credit institutions are measured at amortised cost. Loans and receivables include accounts receivable and loans that the Group provides to its clients.

(ii) Financial assets measured at fair value through Profit or Loss (FVTPL)

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). The Group's derivatives and investments in equity instruments are measured at fair value through profit or loss.

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

• the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and

• the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(iii) Amortised cost

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

(iv) Determination of fair value

The determination of fair value of financial assets and financial liabilities quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques. A market is considered active if quoted prices are readily and regularly available from a stock exchange or other independent parties and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, applying discounted cash flow analysis or other pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

5. Significant accounting policies contd.:

j) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, receivables from financial institutions, loans to customers and accounts receivable, as well as on financial guarantees. The amount of ECL (expected credit losses) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition and financial assets are in default. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 -month ECL.

(i) Significant increase in credit risk

IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. The Group presumes that the credit risk on a financial asset has increased significantly when initial recognition on contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. The Group defines significant increase in its cardholder loan portfolio based on a internal Probability of Default (PD) models. If the model predicts 1% increase in default rates on a portfolio bases the loan portfolio is considered under significant increased credit risk and provisions are increased accordingly.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(i) significant financial difficulty of the borrower;
(ii) a breach of contract, such as a default on installments or on interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;
(iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the Group, including:
  - adverse changes in the payment status of borrowers in the Group; or
  - general national or local economic conditions connected with the assets in the Group.

5. Significant accounting policies, contd.:

j) Impairment of financial assets, contd.:

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. For the Groups Cardholder loan product a set write off policy has not been implemented due to long dated recoveries that arise, and write offs are therefore managed on a judgemental basis. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based historical data adjusted by forward looking information. The Group operates two probability of default models for its cardholder loan portfolio, a 12 month forward looking model (12-month ECL) and another model that predicts the lifetime probability of default for the portfolio (lifetime ECL). As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for its financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

k) Financial liabilites and equity

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) Subsequent measurement of financial liabilites

Financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. All of the Group's financial liabilities are measured subsequently at amortised cost using the effective interest method.

l) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment. Cost includes direct cost incurred upon the purchase.

(ii) Recognition of subsequent cost

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

5. Significant accounting policies, contd.:

l) Property, plant and equipment, contd.:

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of operating assets. The estimated annual depreciation rates are specified as follows:

Buildings and land	0-6%
Equipment, furnishings and vehicles	20-33%

Depreciation method, useful lives and scrap value are evaluated on each reporting date.

m) Intangible assets

(i) Software

Software is stated at cost less accumulated amortisation and accumulated impairment.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three to ten years.

(ii) Customer relationships

Customer relationships are intangible assets acquired in a business combinations and are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. Customer relationships with finite useful life are reported at cost less accumulated amortisation and accumulated impairment. Amortisation is allocated on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at each reporting date, with the effect of any changes in estimate being accounted for on a prospective basis. The estimate useful life of customer relationships is five years.

(iii) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combinations.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

n) Right of use assets and lease liability

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Group's incremental borrowing rate. The right-of-use assets comprise the initial measurement of the corresponding lease liability. They are subsequently measured at cost less accumulated depreciation.

5. Significant accounting policies, contd.:

o) *Provisions*

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Merchant acquiring / payment processing incurs a contingent liability (off balance sheet) as a result of Visa and MasterCard rules which make acquirers such as Valitor jointly liable with the merchants / retailers for the completed provision of goods and services purchased (up to the value of the transaction processed). Valitor raise a provision for loss / impairments in its financial accounts at an individual merchant level if there is evidence indicating that it is probable that Valitor will be required to recompense cardholders in full or in part e.g. as a result of chargebacks received (or estimated to be received) with nil or partial recovery from the merchant, third party or from collateral held by Valitor.

p) *Financial guarantees*

Financial guarantees are contracts binding the Group to repay a certain amount to the holder of a guarantee due to a loss it incurs when the debtor is unable to meet with its obligations on the due date in accordance with the terms of a debt instrument.

Liabilities due to financial guarantees are initially stated at fair value and the fair value is recognised in the statement of comprehensive income over the estimated life of the contract. The contract is then recognised at the higher of the fair value, taking into account recognised fee income, or the present value of estimated payments when a payment due to a guarantee is considered to be likely. Financial guarantees are presented in the Statement of Financial Position among other liabilities.

q) *Settlement obligations*

Settlement obligations consist of card settlements due to merchants at year end less outstanding claims on card schemes (i.e. transactions processed at year end but not yet settled).

r) *Employee benefits*

(i) Defined contribution plan

The Group pays contributions, as a part of employees' salaries, into separate pension funds. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the period that they relate to.

s) *Equity*

Share capital is classified as equity. Direct cost due to issue of share capital is accounted for as a deduction from equity. Dividends on shares are recognised in equity in the period in which they are approved by the Group's shareholders at the Annual General Meeting.

t) *New and amended IFRS Standards that are effective for the current year*

In the current year, the Group has applied a number of amendments to IFRS Standards issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2020 (see below). Their adoption has not had any material impact on the disclosures or on the amounts reported in these Consolidated Financial Statements.

• Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform, Phase I
• Amendments to IFRS 3	Definition of a Business
• Amendments to IAS 1 & IAS 8	Definition of Material

u) *New and amended IFRS Standards that are issued but not yet effective*

At the date of authorisation of these Consolidated Financial Statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

• Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Interest Rate Benchmark Reform, Phase II

The Management of the Company do not expect that the adoption of the amendments to Standards listed above will have a material impact on the Consolidated Financial Statements of the Group in future periods.

Risk management

6. Financial risk management

a) *Overview of financial risks and risk management*

Risk is inherent in the Groups business activities and must be managed in an effective manner in line with risk appetite to protect its customers and shareholders and to ensure that it has adequate capital and liquidity resources. The principal risks faced by the Group are Credit, Market, Liquidity and Operational. The Group is also

The COVID-19 pandemic has severely depressed revenues and earlier targets of turning around operations. The turnaround is expected to take longer than originally forecasted. Due to restructuring of the Group, the COVID-19 pandemic hasn't affected the acquiring operation as much as the issuing operation and is managed on regular basis. Valitor has been able to mitigate the COVID-19 risk in the year 2020.

Risk management framework

Risk assessment, especially the determination of its exposure, together with actions directed at mitigating risk exposure by reasonable countermeasures is one of the Group's main tasks. Many risk factors can have negative effect on the Group's operation. The Board of Directors' policy is to continually monitor and review its operations and assesses the level of risks given its risk appetite, risk controls, changes in its products and services, and changes in the market place and competitive environment in which it operates. For this purpose the Group maintains an active risk management within the Group and in addition, it is the role of the Group's internal audit program to monitor the operation by ensuring that rules are complied with in accordance with the Board of Directors' resolution.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits and find acceptable balance between minimising risk on one hand and maximising the Group's revenue on the other hand.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The CEO has responsibility of risk management towards the Board of Directors. The CEO establishes further rules thereon, defines risk benchmarks as required in accordance with provisions of those rules and monitors regulatory compliance.

The Board of Directors

- Establishes risk policy on an annual basis and reviews on a regular basis reports on the Group's financial risks.
- Takes note of risk factors in the management and organisation of the Group.

Audit and risk committee

- Elaborates the Group's risk management policy.
- Discusses the Group's major risk exposures.
- Makes decisions on various matters related to the Group's risk management.

CEO

- Reviews reports on the Group's risks.
- Is responsible for the Group long term capital requirement.
- Distributes responsibility on financial matters in accordance with finance and risk policy to standing committees and the finance division.

Customer Risk Committee

- Reviews and approves customer facilities within its authority including changes to collateral requirements or conditions of approval.
- Review and oversees customer risk model development encompassing credit exposure measurement, transaction monitoring and provision models etc.

Risk Oversight Committee

- Considers and recommend for approval by the Board of Directors, risk and compliance policies including risk appetite statements.
- Reviews the system of control in relation to risk and compliance with laws and regulations including financial crime e.g. anti-money laundering / terrorist financing and card association rules
- Reviews the system of control in relation to operational risk encompassing IT risk management, business continuity planning, disaster recovery and organisational PCI-DSS.

Risk management

- Supervises and coordinates daily risk management tasks.
- Shares knowledge and risk awareness within the Group.

6. Financial risk management contd.:

b) *Credit risk*

(i) Agreements including credit risk

The primary sources of credit risk for the Group

Sources of credit risk	Description
Payment Processing	Payment processing incurs a contingent liability (off balance sheet) as a result of Visa and MasterCard rules which make acquirers jointly liable with the merchants / retailers for the completed provision of goods and services purchased (up to the value of the transaction processed)
Consumer Loans	Short term loans made to consumers for purchase of goods at Point of Sale (Iceland only)
Deposits at Financial Institutions	Funds held on deposit at Financial Institutions.
Point of Sale Terminal Lease	Short term finance agreements with merchants for the lease of point of sale payment terminals

The Group operates in accordance with applicable laws and regulations, relevant for its operations, as well as in accordance with guidelines of the international card conglomerates.

(ii) Credit risk policy

Strategy for managing credit risk includes the development and maintenance of a robust customer risk management system supported by a range of processes and procedures undertaken throughout the customer lifecycle.

Credit facilities can only be approved by forums or individuals or within their authority and following an appropriate risk assessment. Regular reviews of material credit risk exposures are undertaken in order to identify deterioration in customer quality and potential financial loss or reputational damage.

The Board of Directors is the ultimate authority in relation to the approval of credit facilities. The Board has delegated authority to the CEO who in turn has delegated authority to Risk Forums and to certain individuals.

Applications for facilities are assessed in respect of; legal capacity of the customer to enter into the agreement, legal, regulatory and reputational risks associated with the customer and any connected customers to the extent that they constitute a single risk due to shareholding or direct / indirect control.

The Group maintains a risk authority and approval framework to ensure that risks are assessed and approved by an appropriately authorised individual or forum.

(iii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, receivables from financial institutions, loans to customers and accounts receivable, as well as on financial guarantees. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group considers a financial asset to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Further information on the Group's recognition and measurement of expected credit losses, impairment and write-off policy is provided in note 5. j).

(iv) Maximum exposure to credit risk

Book value of the Group's financial assets corresponds to its maximum exposure to credit risk. The Group's maximum credit risk exposure is specified as follows:

	2020	2019
Cash and cash equivalents	16,878,270	19,847,877
Receivables from issuing banks	140,530	1,956,847
Receivables from card schemes	1,666,072	4,880,323
Accounts and other receivables (excluding prepayments and withholding taxes)	323,576	814,516
Loans	1,877,961	2,052,640
Financial assets at fair value (derivatives)	0	27,782
	20,886,409	29,579,985

Consolidated Financial Statements of Valitor hf. 2020 23 Amounts are in ISK thousand

6. Financial risk management contd.:

b) Credit risk, contd.:

(v) Credit quality of financial assets

The Group's credit risk is specified as follows in terms of impairment. Financial assets in the category 12 month ECL (expected credit loss) are considered as performing and financial assets in the category lifetime ECL (other than accounts receivable under the simplified approach) are considered as doubtful. Other assets are considered to be credit-impaired.

	Gross carrying amount			Total gross	Total	Net carrying
	12 month ECL	Lifetime ECL	Credit impaired	carrying am.	allowance	amount
31 December 2020						
Cash and cash equ.	16,878,270	0	0	16,878,270	0	16,878,270
Receivable from issuing banks	140,530	0	0	140,530		140,530
Receivable from card schemes	1,666,072	0	0	1,666,072	0	1,666,072
Acc. and other rec.	450,915	0	0	450,915	(127,338)	323,576
Loans	1,893,185	4,426	127,466	2,025,077	(147,115)	1,877,961
	21,028,972	4,426	127,466	21,160,863	(274,454)	20,886,409

	Gross carrying amount			Total gross	Total	Net carrying
	12 month ECL	Lifetime ECL	Credit impaired	carrying am.	allowance	amount
31 December 2019						
Cash and cash equ.	19,847,877	0	0	19,847,877	0	19,847,877
Receivable from issuing banks	1,956,847	0	0	1,956,847	0	1,956,847
Receivable from card schemes	4,880,323	0	0	4,880,323	0	4,880,323
Acc. and other rec.	950,602	0	0	950,602	(136,085)	814,516
Loans	2,015,435	15,514	165,500	2,196,448	(143,808)	2,052,640
	29,651,084	15,514	165,500	29,832,097	(279,893)	29,552,204

Impairment on loans is specified as follows:

	12 month ECL	Lifetime ECL	Credit impaired	Total impairment
Year 2020				
Balance at 1 January	20,361	192	123,255	143,808
Transfer of financial assets:				
Transfers from 12-month ECL	(24,593)	43	24,550	0
Transfers from lifetime ECL	(6,093)	0	6,093	0
Transfers from credit impaired financial assets	(86,988)	0	86,988	0
New financial assets	13,918	17	7,912	21,847
Repayments	(2,940)	(25)	(24,297)	(27,262)
Net remeasurement of Loss Allowance	107,825	(145)	(98,958)	8,722
Balance at 31 December	21,492	81	125,543	147,115
Account Receivables balance at 31 December	0	127,338	0	127,338
Total allowance at 31 December	21,492	127,419	125,543	274,454

Consolidated Financial Statements of Valitor hf. 2020 24 Amounts are in ISK thousand

6. Financial risk management contd.:
b) *Credit risk contd.:*
(v) Credit quality of financial assets contd.:

	12 month ECL	Lifetime ECL	Credit impaired	Total impairment
Year 2019				
Balance at 1 January	22,138	175	161,059	183,373
Transfer of financial assets:				
Transfers from 12-month ECL	(44,581)	99	44,482	0
Transfers from lifetime ECL	19	(4,447)	4,428	0
Transfers from credit impaired financial assets	13	0	(13)	0
New financial assets	14,496	84	14,221	28,802
Repayments	(8,074)	(42)	(83,357)	(91,474)
Net remeasurement of Loss Allowance	36,350	4,323	(17,566)	23,107
Balance at 31 December	20,361	192	123,255	143,808
Account Receivables balance at 31 December	0	136,085	0	136,085
Total allowance at 31 December	20,361	136,277	123,255	279,893

The Group always recognises lifetime ECL for accounts receivable (presented with accounts and other receivables in the Statement of Financial Position). The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The following table details the risk profile of loans based on the Groups provision matrix.

31 December 2020	Gross carrying amount	Provision	Net carrying amount	Credit impaired?
Days in default				
Not past due	1,878,108	21,492	1,856,616	No
30-90	19,514	81	19,433	No
90-360	31,742	26,825	4,917	Yes
>360	95,712	98,718	(3,006)	Yes
Total	2,025,077	147,115	1,877,961	

31 December 2019	Gross carrying amount	Provision	Net carrying amount	Credit impaired?
Days in default				
Not past due	2,047,331	20,384	2,026,947	No
30-90	24,753	169	24,584	No
90-360	57,215	56,107	1,108	Yes
>360	67,148	67,148	0	Yes
Total	2,196,448	143,808	2,052,640	

c) *Liquidity risk*
(i) *Liquidity risk management*

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. The Group places great emphasis on monitoring and managing liquidity risk on a daily basis, and endeavours to ensure it has sufficient resources to meet its obligations at all times.

Consolidated Financial Statements of Valitor hf. 2020 25 Amounts are in ISK thousand

6. Financial risk management contd.:

c) *Liquidity risk contd.:*

(ii) *Measurement of liquidity risk*

A key factor in the Group´s management of liquidity risk is to ensure a balance between cash flow of financial assets and liabilities. A comparison of the book value of the Group‘s financial assets and liabilities and the contractual cash flow thereof is outlined in the table below.

		Contractual cash flows			
	Book value	0 - 3 months	3 - 12 months	1 - 5 years	Total
31 December 2020					
Financial assets:					
Cash and cash equivalents	16,878,270	16,878,270	0	0	16,878,270
Receivables from issuing banks	140,530	140,530	0	0	140,530
Receivables from card schemes	1,666,072	1,666,072	0	0	1,666,072
Accounts and other receivables	323,576	323,576	0	0	323,576
Financial assets at fair value	0	0	0	70,107*	70,107
Loans	1,877,961	545,224	780,635	552,102	1,877,961
Total financial assets	20,886,409	19,553,672	780,635	622,209	20,956,516
Financial liabilities:					
Settlement obligations	16,740,470	16,740,470	0	0	16,740,470
Payable to credit institutions	0	0	0	0	0
Other liabilities	1,388,149	1,388,149	0		1,388,149
Total financial liabilities	18,128,619	18,128,619	0	0	18,128,619
Net financial instruments	2,757,790	1,425,053	780,635	622,209	2,827,897

* no maturity

		Contractual cash flows			
	Book value	0 - 3 months	3 - 12 months	1 - 5 years	Total
31 December 2019					
Financial assets:					
Cash and cash equivalents	19,847,877	19,847,877	0	0	19,847,877
Receivables from issuing banks	1,956,847	1,956,847	0	0	1,956,847
Receivables from card schemes	4,880,323	4,880,323	0	0	4,880,323
Accounts and other receivables	814,516	814,516	0	0	814,516
Financial assets at fair value	27,782	27,782	0	65,766*	93,548
Loans	2,052,640	613,006	859,975	579,659	2,052,640
Total financial assets	29,579,985	28,140,351	859,975	645,425	29,645,751
Financial liabilities:					
Settlement obligations	23,396,666	23,396,666	0	0	23,396,666
Payable to credit institutions	1,745	1,745	0	0	1,745
Other liabilities	2,267,477	2,185,447	0	82,029	2,267,477
Total financial liabilities	25,665,888	25,583,858	0	82,029	25,665,888
Net financial instruments	3,914,098	2,556,493	859,975	563,395	3,979,864

* no maturity

d) *Market risk*

(i) Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in market interest rates. The Group is exposed to interest rate risk, primarily resulting from a mismatch in interest bearing assets and liabilities, their duration and interest rate fixing periods.

At year end no assets or liabilities are indexed. The majority of Current assets bear variable interest. Payables to credit institution bear variable interest.

Consolidated Financial Statements of Valitor hf. 2020 26 Amounts are in ISK thousand

6. Financial risk management contd.:

d) *Market risk contd.:*

(ii) Currency risk

Currency risk is the risk that earnings or capital may be negatively affected by fluctuations in foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in currency composition of assets and liabilities. The Group aims to limit currency risk. Net exposure per currency is monitored relative to the total equity of Valitor hf.

A breakdown of the Group's currency exposure as defined by IFRS 7 is as follows:

2020	**USD**	**GBP**	**EUR**	**DKK**	**Other currencies***	**Total**
Cash and cash equiv. ...	185,251	1,514,870	1,823,617	327,216	877,767	4,728,721
Account Receivables	1,804	65,755	65,381	22,699	22,914	178,553
Settlem. obligations	(472,476)	(1,127,837)	(1,667,035)	(333,581)	(836,450)	(4,437,379)
Derivatives	(8,469)	(7,940)	(7,722)	(13,164)	0	(37,295)
Net curr. exposure	(293,890)	444,848	214,241	3,170	64,231	432,600

2019	**USD**	**GBP**	**EUR**	**DKK**	**Other currencies***	**Total**
Cash and cash equiv. ...	1,253,872	2,762,678	3,054,757	670,907	1,656,883	9,399,097
Account Receivables	41,875	160,439	69,158	0	18,047	289,519
Settlem. obligations	(665,566)	(1,625,971)	(1,615,482)	(512,244)	(1,083,782)	(5,503,045)
Derivatives	(423,850)	(1,434,780)	(1,154,555)	(290,912)	(415,294)	(3,719,391)
Net curr. exposure	206,331	(137,634)	353,878	(132,249)	175,854	466,180

*Other currencies includes SEK, NOK and CHF as the most significant ones.

IFRS 7 does not allow for intangible assets to be presented as part of the currency exposure. The Group is exposed to GBP due to its investments in subsidiaries outside of Iceland which are therefore not presented in the table above. The total exposure at the end of 2020 is ISK 1.4 billion.

Sensitivity analysis

Based on net currency exposure at end of December a 10% movement in each currency in the table above would impact profit before tax by ISK 43 m. (2019: ISK 47 m.). This analysis is based on the assumption that other risk factors are being held constant. The analysis is performed on the same basis for 2019.

Total assets in foreign currencies according to the Group's Consolidated Financial Statements amount to ISK 4,907 m. (2019: ISK 9,689 m.) and total liabilities amount to ISK 4,475 m. (2019: ISK 9,222 m.).

e) Equity and equity management

It is the Group's Board of Directors' policy to maintain a strong equity position so as to support stability in future operations. No changes were made during the year with respect to the Group's equity management.

f) Guarantee risk

Net Risk of Delayed Delivery Exposure (DDE) is measured as the Gross DDE less settlement funds held and where DDE is measured as the current utilisation. The Net Risk of Delayed Delivery Exposure portfolio should be viewed as an estimate of exposure based upon information obtained from merchants at commencement of the relationship or following a review of the merchant facility. Merchant provided information as to the delay between payment and delivery can be unreliable as the data is not typically held by merchants and the Group uses expert opinion based on sector averages of delayed delivery timescales where it is appropriate to do so.

Valitor Net Delayed Delivery Exposure has decreased from prior year. The decrease is directly related to the Covid 19 pandemic and the reduction in pre payments seen predominantly in the travel and tourism sectors.

Consolidated Financial Statements of Valitor hf. 2020 27 Amounts are in ISK thousand

6. Financial risk management contd.:

f) Guarantee risk contd.:

It is a strategic decision to exit the Issuing Prepaid business in Valitor. Issued Prepaid e-money increased in the second half of the year due to increase in loads from one of Valitors Partners. The e-money is now expected to reduce month by month in 2021. All issued Prepaid e-money is ring fenced client accounts.

	2020	2019
Issued Prepaid e-money presented in EUR'000	104,770	65,004

The financial position and standing of issuers is reviewed and evaluated by the schemes (Visa and MasterCard) using their own methods and rules on a yearly (and ongoing) basis. Valitor hf., acts as principal member to both schemes for domestic issuers in Iceland (sponsors their membership) and as such (under the relevant scheme rules) can become liable for the sub-members scheme debt, where relevant the scheme rules may require both principal and or sub-member to provide guarantee´s to the scheme, due to the issuance.

7. Use of estimates and judgements regarding accounting policies applied

a) Fair value estimates on shares

When determination of fair value of shares cannot be based on published price on an active market, management uses valuation models in determining fair value. Using valuation models requires management to decide both what model to use as well as to determine the assumptions on which fair value is based. Using other models and assumption could have an impact on both fair value and fair value changes recognised in the Financial Statements.

b) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, receivables from financial institutions, loans to customers and accounts receivable, as well as on financial guarantees. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group considers a financial asset to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Further information on the Group's recognition and measurement of expected credit losses, impairment and write-off policy is provided in note 5. j).

c) Impairment testing for goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of impairment calculations are set out in note 19.

d) Estimates of lease

The Group has applied its judgment in presenting related information on leases in a manner that it considers to be the most relevant to an understanding of its financial performance and financial position. Estimates have been made on the estimated (remaining) useful lives of right of use assets and the remaining lease terms.

Notes to the Consolidated Statement of Comprehensive Income

8. Salaries and salary-related expenses

The total number of employees is as follows:	2020	2019
Average number of full-time equivalent positions during the year	251	404
Number of employees at end of the year	216	393

Salaries and salary related expenses are specified as follows:

Salaries	3,178,062	4,417,364
Pension fund contribution	393,943	487,211
Other salary related expenses	408,303	582,075
Other corrections due to restructuring	(214,520)	456,159
Total salaries and salary-related expenses	3,765,789	5,942,809
Capitalised salaries due to internal development, included above	(281,237)	(607,297)
Salaries and salary-related expenses from discont. operation (see note 17)	(246,033)	(1,479,616)
Total salaries and salary-related expenses excluding capitalized salaries	3,238,518	3,855,895

Total of 224 million were accounted for during 2020 due to obligated redundancy payments in 2021. The obligated redundancy payments include salary related expenses.

Herdís Fjeldsted, CEO	32,684	0
Viðar Þorkelsson, former CEO	66,580	56,433
Key management	177,203	226,468

Remunerations of the Board of Directors are specified as follows:	2020	2019
Þór Hauksson, Chairman of the Board	9,533	1,062
Herdís Dröfn Fjeldsted, acting CEO	2,186	1,752
Renier Lemmens	8,888	1,800
Synnöve Trygg	5,190	8,208
Roger Keith Alexander	5,190	7,113
Guðfinna Helgadóttir	2,472	0
Anna Rún Ingvarsdóttir, Deputy Board Member	155	441
Guðmundur Þorbjörnsson, former Chairman of the Board	0	5,785
Jónína S. Lárusdóttir, former Board member	0	1,478
Stefán Pétursson, former Board member	0	1,478
Theódór Friðbertsson, Deputy Board Member	0	232
Þórbergur Guðjónsson, former Deputy Board Member	0	116
	33,614	29,465

9. Other operating expenses

Other operating expenses are specified as follows:	2020	2019
External services	245,980	677,480
IT related cost	710,205	812,582
Housing	121,733	300,409
Marketing expenses	124,184	330,581
Various office and employee related expenses	88,925	246,797
Other expenses	341,887	724,286
Reclassified to discontinued operation (see note 17)	(103,358)	(355,188)
Total other operating expenses	1,529,557	2,736,947

Consolidated Financial Statements of Valitor hf. 2020 29 Amounts are in ISK thousand

10. Auditor's fee

Auditor's fee is specified as follows:

	2020	2019
Audit of the Consolidated Financial Statements	49,031	46,238
Review of Interim Consolidated Financial Statements	5,492	8,291
Total	54,523	54,529

11. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2020	2019
Financial income on receivables from credit institutions	37,940	44,390
Financial income from discontinued operation	(3,772)	(58)
Total financial income	34,168	44,332
Financial expenses on financial liabilities with credit institutions	(212,895)	(176,740)
Financial expenses on other liabilities	(13,383)	(8,606)
Financial expenses on lease liabilities	(44,926)	(56,945)
Financial expenses from discontinued operation	3,228	12,238
Total financial expenses	(267,975)	(230,052)
Foreign exchange difference	113,558	103,955
Fair value changes of financial assets	4,341	8,072
Loss on sale of financial assets	(83,423)	0
Foreign exchange difference from discontinued operation	(3,788)	79,081
Total income (expenses) on financial assets and liabilities	30,688	191,109
Total financial income and (expenses)	(203,119)	5,388

12. Taxes

Income tax

Income tax recognised through profit or loss is specified as follows:

	2020	2019
Deferred income taxes	148,006	564,846
Effects of change in tax rate	(5,526)	(77,502)
Income tax expense	142,480	487,344

Effective tax rate is specified as follows:

	2020		2019	
(Loss) Profit before tax		(1,344,363)		(4,161,611)
Income tax according to current tax rate	20.0%	(268,873)	20.0%	(832,322)
Non-deductible expenses	(2.0%)	27,217	(0.4%)	17,942
Effect of tax rates in foreign jurisdictions	(0.4%)	5,526	(1.9%)	77,502
Valuation allowance not recognised in Statement of Financial Position	(15.3%)	205,841	(6.4%)	265,876
Other	8.3%	(112,191)	0.4%	(16,342)
Effective income tax	10.6%	(142,480)	11.7%	(487,344)

Non-taxable income

Non-taxable income consist mainly of profit from investments in shares.

Valuation allowance not recognised in the Statement of Financial Position

At year end, the Group has unused tax losses in UK available for offset against future profits which hasn't been recognised as deferred tax asset. Other deferred tax assets recognised is considered to be used in the future for taxable profits available, see further note 25.

Consolidated Financial Statements of Valitor hf. 2020 30 Amounts are in ISK thousand

13. Financial assets and liabilities

Classification and fair value of financial assets and liabilities

The Group's classification and fair value of financial assets and liabilities (not including accrued interests) is specified as follows.

	Financial assets and liabilities at FVTPL	Financial assets and liabilities at amortised cost	Total book value	Fair value
31 December 2020				
Cash and cash equivalents	0	16,878,270	16,878,270	16,878,270
Receivables from issuing banks	0	140,530	140,530	140,530
Receivables from card schemes	0	1,666,072	1,666,072	1,666,072
Accounts and other receivables	0	323,576	323,576	323,576
Loans	0	1,877,961	1,877,961	1,877,961
Financial assets at fair value	70,107	0	70,107	70,107
	70,107	20,886,409	20,956,516	20,956,516
Settlement obligations	0	16,740,470	16,740,470	16,740,470
Payable to credit institutions	0	0	0	0
Financial liabilities	0	0	0	0
Other short term liabilities	0	1,388,149	1,388,149	1,388,149
	0	18,128,619	18,128,619	18,128,619

	Financial assets and liabilities at FVTPL	Financial assets and liabilities at amortised cost	Total book value	Fair value
31 December 2019				
Cash and cash equivalents	0	19,847,877	19,847,877	19,847,877
Receivables from issuing banks	0	1,956,847	1,956,847	1,956,847
Receivables from card schemes	0	4,880,323	4,880,323	4,880,323
Accounts and other receivables	0	814,516	814,516	814,516
Loans	0	2,052,640	2,052,640	2,052,640
Financial assets at fair value	93,548	0	93,548	93,548
	93,548	29,552,204	29,645,751	29,645,751
Settlement obligations	0	23,396,666	23,396,666	23,396,666
Payable to credit institutions	0	1,745	1,745	1,745
Financial liabilities	25,908	0	25,908	25,908
Other short term liabilities	0	2,267,477	2,267,477	2,267,477
	25,908	25,665,888	25,691,795	25,691,795

Consolidated Financial Statements of Valitor hf. 2020 31 Amounts are in ISK thousand

14. Cash and cash equivalents

Cash is specified as follows:	2020	2019
Bank deposits	16,878,270	19,847,877

As a Payment Institution, Valitor hf. is required to comply with rules no. 88/2020 regarding protection of customer funds. Customer funds are protected in safeguarded bank accounts, whereby relevant financial institution acknowledges that Valitor hf. hold funds, that belong to its customers, as deposits in safeguarded bank accounts.

Safeguarded customer funds are on Valitor hf. Balance Sheet as part of cash and cash equivalents. On 31 December 2020, safeguarded customer funds amounted to ISK 14,570 million.

15. Loans

Loans are specified as follows:	2020	2019
Credit card loans	2,025,077	2,196,448
Impairment account due to loans	(147,115)	(143,808)
Total loans	1,877,961	2,052,640

16. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Financial instruments at fair value through profit or loss are specified as follows:

Derivatives:	2020	2019
FX fwds and FX swaps - assets	0	27,782
FX fwds and FX swaps - liabilities	0	(25,908)
Total derivatives	0	1,874
Domestic shares:		
Total domestic shares	70,107	65,766
Total financial instruments at fair value through profit and loss	70,107	67,640
Catogories in the Statement of Financial Position		
Financial assets at fair value	70,107	93,548
Financial liabilities	0	(25,908)
Total financial instruments at fair value through profit and loss	70,107	67,640

The Group applies a fair value determination hierarchy specified as follows:

Level 1: Based on publicly available prices on active markets for identical assets and liabilities.

Level 2: A valuation method not based on public prices in an active market (level 1) but information that is observable for the assets and liabilities, either directly (e.g. price) or indirectly (derived from prices).

Level 3: A valuation method with significant unobservabe inputs, i.e. assumptions not based on market information.

The following table specifies the levels to which financial assets and liabilities pertain in:

31.12.2020

	Level 1	Level 2	Level 3	Total
FX fwds and FX swaps	0	0	0	0
Domestic shares	0	0	70,107	70,107
	0	0	70,107	70,107

31.12.2019

	Level 1	Level 2	Level 3	Total
FX fwds and FX swaps	0	1,874	0	1,874
Domestic shares	0	0	65,766	65,766
	0	1,874	65,766	67,640

Consolidated Financial Statements of Valitor hf. 2020 32 Amounts are in ISK thousand

17. Discontinued operations

During 2020 Valitor has undertaken a reorganisation of the Group in order to strengthen Valitor's core business. A part of these reorganisation was to sell the business unit Omni Channel Solution. Valitor reached agreement in 2020 with sale of the Danish legal entity Valitor A/S in May 2020 and with sale of the UK operation of Omni Channel Solution in June 2020. With those two sales, Valitor has now completed the sale of the discontinued operations. The saleprice of Omni Channel Solution remains confidential, the amount of cash and cash equivalents in the subsidiaries amounted ISK 226 million. Total assets and liabilities sold did have immaterial effect on the Consolidated Financial Statement of the Group.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Results of discontinued operation:	**2020**	**2019**
Transaction service acquiring income	110,905	465,093
Other acquiring income	208,073	551,019
Total operating income	318,978	1,016,111
Other cost of sales	(82,773)	(249,296)
Gross profit	236,205	766,815
Salaries and salary-related expenses	(246,033)	(1,479,616)
Depreciation and amortisation	(60,301)	(4,123,244)
Other operating expenses	(103,358)	(354,503)
Other accrued contractual expenses		(566,500)
Total operating expenses	(409,692)	(6,523,864)
Operating loss	(173,488)	(5,757,049)
Financial income	3,772	58
Financial expenses	(3,228)	(12,238)
Net income on financial assets and liabilities	3,788	(79,081)
Total financial income and (expenses)	4,332	(91,261)
Loss of discontinued operation	(169,155)	(5,848,310)
Income tax	0	0
Discontinued operation, net of income tax	(169,155)	(5,848,310)

No effects are on the financial position of the Group at the end of 2020 since all assets and liabilities related to the discontinued operations have been sold from the Group.

Consolidated Financial Statements of Valitor hf. 2020 33 Amounts are in ISK thousand

18. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Land and buildings	Equipment, furnishings and vehicles	Total
2020			
Accumulated cost at the beginning of the year	22,993	1,278,229	1,301,222
Additions during the year	0	115,828	115,828
Sold and disposed of during the year	0	(57,519)	(57,519)
Translation differences	0	18,669	18,669
Assets associated with discontinued operations	0	84,595	84,595
Total value at year end	22,993	1,439,803	1,462,796
Accumulated depreciation	19,634	741,419	761,054
Depreciated during the year	250	345,451	345,701
Sold and disposed of during the year	0	(35,378)	(35,378)
Assets associated with discontinued operations	0	28,120	28,120
Total depreciation	19,884	1,079,613	1,099,497
Book value at year end	3,109	360,190	363,299

	Land and buildings	Equipment, furnishings and vehicles	Total
2019			
Accumulated cost at the beginning of the year	22,993	1,519,173	1,542,166
Additions during the year	0	273,496	273,496
Sold and disposed of during the year	0	(437,693)	(437,693)
Translation differences	0	7,849	7,849
Assets associated with discontinued operations	0	(84,595)	(84,595)
Total value at year end	22,993	1,278,229	1,301,222
Accumulated depreciation	19,076	850,239	869,315
Depreciated during the year	559	352,606	353,165
Sold and disposed of during the year	0	(433,306)	(433,306)
Assets associated with discontinued operations	0	(28,120)	(28,120)
Total depreciation	19,634	741,419	761,054
Book value at year end	3,359	536,810	540,169
Depreciation rate	0-6%	20-33%	

Official real estate value of real estates and land, insurance value of real estates and insurance value of equipment, furnishings and vehicles are specified as follows:

	2020	2019
Real estate value of building and land	50,500	53,150
Insurance value of building and land	66,650	59,100
Insurance value of equipment, furnishings and vehicles	708,196	630,502

Depreciation of fixed assets and amortisation of intangible assets are specified as follows:

	2020	2019
Depreciation of property, plant and equipment	345,451	352,606
Amortisation of intangible assets, see note 19	685,272	4,882,423
Depreciation of right of use assets, see note 20	131,630	145,655
Depreciation from discontinued operation, see note 17	(60,301)	(4,123,244)
Total depreciation and amortisation	1,102,052	1,257,441

Consolidated Financial Statements of Valitor hf. 2020 34 Amounts are in ISK thousand

Notes, contd.:

19. Intangible assets

2020

	Software	Customer relationship	Goodwill	Total
Accumulated cost at the beginning of the year	3,873,635	374,741	1,181,297	5,429,673
Addition from internal development	281,237	0	0	281,237
Additions	156,203	0	0	156,203
Balance at year end	4,311,076	374,741	1,181,297	5,867,114
Accumulated amortisation	1,973,791	144,269	0	2,118,060
Amortisation during the year	615,204	70,068	0	685,272
Total amortisation	2,588,995	214,337	0	2,803,332
Exchange rate effects	0	20,477	104,703	125,180
Book value at year end	1,722,081	180,881	1,286,000	3,188,962
Amortisation rate	10-33%	10-17%	0%	

An impairment test was performed on SMB's Acquiring goodwill and other intangible assets at year end. The recoverable amount of those cash-generating units was determined based on a value in use calculation which uses cash flow projections based on Financial budgets discussed by the Board of Directors. The calculation considers the time value of money, discounting future payments using a discount rate determined by the risk free return rates of the currencies in which the cash flows are projected to occur in and a risk premium based on any factors of risk or uncertainty. Revenue are expected to decrease in 2021 compared to 2020 revenues due to Covid-19. Revenue growth is expected to bounce back in 2022 and 2023. Estimated future growth is 2.5%.

During 2020 Valitor merged SMB Partnerships division with SMB Iceland into one unit called Domestic & Partnerships Acquiring. Valitor also operates the acquiring division SMB UK and does test the goodwill and other intangible assets for the SMB Acquiring business as whole. It is Valitor intention that better communication channels and the proximity of these units to each other as well as cost savings already accomplished will further support our growth model. The impairment test for SMB Acquiring concluded that no indications of impairment existed.

Key findings of the impairment test:	SMB Acquiring	Total
Book value of goodwill	1,286,000	1,286,000
Other assets assigned to cash-generating unit	3,708,600	3,708,600
Carrying amount	4,994,600	4,994,600
Discount factor	10.3%	

2019

The impairment test for SMB concluded that no indications of impairment existed. In late 2019 decision was taken to stop supporting the business unit Omni Channel Solution for future growth resulting in impairment of goodwill and other intangible assets of ISK 4,050 m. See note 17 for further information about discontinued operation.

Key findings of the impairment test:	OMNI	SMB	Total
Book value of goodwill	0	1,181,297	1,181,297
Other assets assigned to cash-generating unit	0	4,368,108	4,368,108
Carrying amount	0	5,549,405	5,549,405
Discount factor	-	11.5%	

Consolidated Financial Statements of Valitor hf. 2020 35 Amounts are in ISK thousand

19. Intangible assets contd.:

2019

	Software	Brands	Customer relations	Goodwill	Total
Accumulated cost					
at the beginning of the year	5,466,675	116,671	543,920	3,434,514	9,561,779
Addition from internal development	607,242	0	0	0	607,242
Additions	567,457	0	0	0	567,457
Disposed of during the year	(2,767,739)	(116,671)	(167,964)	(2,335,394)	(5,387,767)
Balance at year end	3,873,635	0	375,955	1,099,121	5,348,711
Accumulated amortisation	2,434,692	30,877	135,706	0	2,601,275
Amortisation during the year	2,247,883	79,744	176,527	2,378,268	4,882,423
Disposed of during the year	(2,708,784)	(116,671)	(167,964)	(2,378,268)	(5,371,687)
Total amortisation	1,973,791	(6,049)	144,269	0	2,112,011
Exchange rate effects	0	(6,049)	(1,215)	82,177	74,913
Book value at year end	1,899,844	0	230,472	1,181,297	3,311,613
Amortisation rate	10-33%	10%	10-17%	0%	

20. Right of use assets

Right of use assets relates to buildings and are specified as follows:

	2020	2019
Total value at beginning of the year	867,848	0
Recognition of right of use asset on initial application of IFRS 16	0	1,099,050
Depreciation charge for the year	(131,630)	(145,655)
Accrued indexation	27,961	21,984
Derecognition of right of use assets	(399,716)	0
Reclassified to assets associated with disposal groups	106,172	(106,975)
Translation difference	12,171	(556)
Total value at year end	482,805	867,848

Amounts recognised in the Statement of Comprehensive Income:

	2020	2019
Depreciation expense from right of use assets	131,630	145,655
Interest expense on lease liabilities	44,926	56,945
VAT and low value lease expenses not included in lease liabilities	51,254	118,696
Total value at year end	227,810	321,297

21. Accounts and other receivables

Accounts and other receivables are specified as follows:

	2020	2019
Account Receivables	259,159	614,811
Pre-payments and uncollected income	757,733	1,034,646
Other assets	191,756	254,763
Accounts and other receivables related to discontinued operations	0	(195,487)
Total other assets	1,208,648	1,708,734

Methods of the Group's credit risk is specified in terms of impairment and described in note 6. b).

Consolidated Financial Statements of Valitor hf. 2020 36 Amounts are in ISK thousand

22. Lease liability

Lease liability are specified as follows:

	2020	2019
Total lease liability	505,940	889,542
Current maturities	(70,406)	(92,085)
	435,534	797,456

The maturity of the lease liability are specified as follows:

	2020	2019
Year 2022	54,811	97,298
Year 2023	57,113	102,807
Year 2024	59,511	105,524
Year 2025	62,009	95,020
Later	202,091	396,808
	435,534	797,456

23. Payable to credit institutions

Payable to credit institutions are specified as follows:

	2020	2019
Bank overdraft	0	1,745

24. Borrowings

Borrowings are specified as follows:

	2020	2019
Borrowings in ISK	0	3,500,000
	0	3,500,000

The maturity of the borrowings are specified as follows:

	2020	2019
Year 2020	0	3,500,000

At the end of April 2020, the total amount of ISK 3,500 million was converted into equity in Valitor Holding hf.

2020	Balance 1.1.2020	Cash flow	Non-cash changes			Balance 31.12.2020
			Converted to equity	De-/ recognition	Financial exp. and other changes	
Borrowing	3,500,000	0	(3,500,000)	0	0	0
Payable to credit instit.	1,745	(1,745)	0	0	0	0
Lease liabilities	889,542	(160,171)	0	(303,874)	80,443	505,940
Total liabilities from financing activities	4,391,288	(161,916)	(3,500,000)	(303,874)	80,443	505,940

2019	Balance 1.1.2019	Cash flow	Non-cash changes			Balance 31.12.2019
			Acquisition	De-/ recognition	Financial exp. and other changes	
Borrowing	0	3,500,000	0	0	0	3,500,000
Payable to credit instit.	7,771	(6,483)	0	0	457	1,745
Lease liabilities		(178,175)	0	989,946	77,771	889,542
Total liabilities from financing activities	7,772	3,315,342	0	989,946	78,228	4,391,287

Consolidated Financial Statements of Valitor hf. 2020 37 Amounts are in ISK thousand

25. Income tax assets (liabilities)

Deferred income tax assets (liabilities) are specified as follows:

	2020	2019
Property, plant and equipment	15,041	(12,721)
Intangible assets	(82,153)	(102,956)
Right of use assets	4,302	3,931
Deferred FX diff.	(39,382)	24,744
Account and other receivables	38,272	4,276
Carry-forward tax losses	474,334	197,114
Other	33,788	136,251
	444,202	250,640

The carry-forward tax losses capitalised as Deferred tax asset in Statement of Financial Position are from Iceland. It is the management view that there will be future taxable profits available for the use of the capitalised carry-forward tax losses. The losses can be carried forward for next 10 years. Other tax losses in subsidiaries in the UK have not been capitalised due to uncertainty of its utilisation, those losses do not expire.

26. Accounts payable and other liabilities

Accounts payable and other liabilities are specified as follows:

	2020	2019
Accrued expenses (maturity 0 - 3 months)	947,510	1,894,852
Other short term liabilities	812,351	581,619
Total other liabilities	1,759,861	2,476,472

27. Equity

Share capital

Valitor hf. share capital according to its Articles of Association amounts to ISK 2,350 m. at year end. Valitor hf. did merge with Valitor Holding hf. during the year and all changes to the share capital can be seen in the Consolidated Statement of Change in Equity. One vote is attached to each ISK one share, in addition to the right of receiving dividend. The entire share capital has been paid.

Share premium (Statutory reserve)

Within share premium is the statutory reserve amounting to ISK 100 m. At least ten percent of the profits that do not offset the potential loss of previous years shall be invested in a statutory reserve until they amount to ten percent of the share capital. Once this limit has been reached, contributions shall be at least five percent until the fund amounts to quarter of the share capital. At the end of 2020, ISK 488 million was still needed to equal the quarter of the share capital.

Capitalised development cost and other reserves

Following the Icelandic Financial Statements Act no. 3/2006, Valitor hf. has transferred its capitalised development cost net of depreciation to a restricted retained earnings account. Other reserves are translation differences from foreign subsidiaries translated to the functional currency of the Group.

Dividend

The Board of Directors proposes that net loss will be added to equity and that no dividend be paid in 2021 for the fiscal year 2020.

Consolidated Financial Statements of Valitor hf. 2020 38 Amounts are in ISK thousand

28. Related parties

The Group's related parties are owners with significant influence, associated companies, Board members, Managing Directors, and close family members of the aforementioned parties.

Owners and associated companies have carried out transactions with the Group during the year. Terms and condition of the transactions are on an arm's length basis.

The following tables discloses main transactions with related parties during the year, in addition to information of the Group's receivable and payable to these parties at year end.

2020

Outstanding with related parties is specified as follows:

	Assets	Liabilities	Net
Ultimate controlling party	10,532,078	8,988	10,523,090
Key management personnel	423	0	423
	10,532,501	8,988	10,523,513

Transactions with related parties:

	Interest income	Interest expenses	Fee and comm. income	Fee and comm. expenses	Other income/ expenses
Ultimate controlling party	53,387	(16,245)	972,435	(1,598,174)	(141,290)
Subsidiaries and related parties	0	0	0	(225,424)	0
Key management personnel	62	0	0	0	0
	53,449	(16,245)	972,435	(1,823,598)	(141,290)

2019

Outstanding with related parties is specified as follows:

	Assets	Liabilities	Net
Ultimate controlling party	201,870	3,541,651	(3,339,780)
Key management personnel	30,573	13,172	17,401
	232,443	3,554,823	(3,322,380)

Transactions with related parties:

	Interest income	Interest expenses	Fee and comm. income	Fee and comm. expenses	Other income/ expenses
Ultimate controlling party	24,818	(109,394)	706,299	(1,565,497)	(224,407)
Subsidiaries and related parties	5,357	0	0	(805,487)	1,955
Key management personnel	0	0	1	0	0
	30,175	(109,394)	706,300	(2,370,984)	(222,452)

Information about remuneration to key management personnel are diclosed in note 8.

Consolidated Financial Statements of Valitor hf. 2020 39 Amounts are in ISK thousand

29. Legal Matters

The Group has adopted policies and implemented procedures in order to manage legal matters and issues. The Legal team reviews legal issues and potential disputes brought to the team and estimates any potential loss in cooperation with Risk. Necessary and appropriate actions are taken in order to reflect any possible negative effect on the Group's Financial position. At the end of December two legal disputes involving the Group remained open.

Contingent liabilities

The Bankers' Pension Fund (Lífeyrissjóður bankamanna, hereinafter referred to as the Plaintiff) filed a suit on 9 October 2018 against Valitor hf., Landsbankinn, RB, Landsvaki, Central Bank and the Minister of Finance on behalf of the State (together hereinafter referred to as the Defendants). Defendants claimed amendments to an agreement of 1997 and according to which Valitor hf. would be ordered to pay to the Plaintiff additionally ISK 194 million and possible further payments in the future.

By the agreement of 1997 the Defendants agreed to pay certain amounts to the Plaintiff to enable the fund to meet its obligations toward its members for the future. The Plaintiff claims that it is unfair to the fund´s members to be subject to reduced rights due to the fund´s limited financial capacity and failed assumptions for the basis of the agreement. Earlier on the Defendants guaranteed that the Plaintiff could meet its obligations towards its members, but that guarantee was rescinded in 1997. The amounts of the Plaintiff's claims towards the Defendants are based on an evaluation of a court appointed expert appraiser.

Valitor hf. submitted its brief and defence to the District Court in the beginning of January 2019 renouncing the claim. The District court dismissed the case with a ruling on the 24 April 2019. The ruling was appealed by the Plaintiffs to the Appellate court on the 7 May 2019. On the 6 June 2019 the Appellate court refused to dismiss the case and decided it should be trialled before the District Court. Several proceedings have taken place in the fall of 2019 and in 2020, among other to address the request for further court appointed appraisers to be appointed. Based on Valitor counsel's advice Valitor decided not to take part in such requests.

In the last hearing requests for a further Court appointed appraiser was approved, and now the appraisal is being worked on.

On the 21 April 2020 the company EC-clear ehf. filed a suit against Valitor hf., Arion bank hf., Landsbankinn hf., Islandsbanki hf. and Borgun hf. The case is based on a claim that Kortaþjonustan has allegedly transferred to EC-clear ehf. and Kortaþjonustan had previously taken to court but faced dismissal three times. EC-clear ehf. is claiming liability for damages against all defendants for the alleged breach of the competition act, as discussed in the Competition Authority's decision no. 8/2015. The claim is based on the same arguments as Kortaþjonustan based their claims on in previous cases, without stating the exact amount of the alleged loss.

The District Court dismissed the case yet again in November 2020, but EC-Clear has appealed the ruling to Landsréttur Appellate Court. Valitor has yet again filed its brief of defence and a claim for dismissal. The case is estimated to be ruled on by Landsréttur in spring 2021. No provision has been made due to this case.

Other legal matters

The Group continues to address any complaints, legal issues and potential disputes in such a way to aim for reaching an amicable resolution, and otherwise to escalate such issues for further review and appropriate processing.

30. Going concern assumptions

The Group's Board has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to do so in the foreseeable future. Therefore, the Consolidated Financial Statements continue to be prepared on a going concern basis.

The Group has been incurring operating losses for the past years and is aiming to become profitable in foreseeable future. Management has focused on optimisation of the operation, operating expenses are decreasing and the emphasis will continue to be on reducing them further. Non-profitable businesses have been sold from the Group. The financial position of the Group is strong. The Company's Board has assessed its liquidity and is of the opinion that the Group has available cash or liquid assets to meet negative cash flow in the near future.

31. Events after the Balance sheet date

As part of the general strategy for 2021-2023 couple of organizational structure changes have been executed with the aim of simplifing the structure. Valitor will now have two business units, Acquiring Solutions and Issuing Solutions.

Issuing Solution and Issuing Processing were merged under the name of Issuing Solutions. Reynir Bjarni Egilsson, former Head of Issuing Processing, serves now as Managing Director of the merged division.

On the acquiring side, Valitor has simplified the structure where the Managing Director for the new department Acquiring Solutions is Petur Petursson. Acquiring Solutions consists of three revenue generating divisions, SMB Domestic Sales, Partnership Sales, SMB UK & Ireland Sales and one supporting division, Support and Payment Solutions.

With appropriate strategic initiatives and actions, the focuse will be on off-the shelf product offering and a positive effect on the profitability of the Company.

No other events have arisen after the reporting period and up to the approval of these Consolidated Financial Statements that require additional disclosures.

Other information, unaudited

Corporate Governance Statement Valitor hf.

Good corporate governance contributes to open and reliable relations between employees, the Board, Shareholders, customers and other stakeholders. Corporate Governance at Valitor hf. (hereinafter Valitor or the Company) provides the foundation for responsible management and decision-making. The Corporate Governance Statement by Valitor is based on relevant laws and regulations as well as accepted guidelines that are in effect at the time the Company's annual accounts are approved by the Board.

Compliance with good governance guidelines

Valitor operates as a payments institution according to the Act on Payments services, no. 120/2011, and as such, the company is obliged to adhere to relevant rules concerning the governance in addition to the guidelines of the European Banking Authority (EBA / GL / 2017/11).Valitor is the owner of all Valitor Group companies and manages the assets (shares in Group companies) as well as individual financing within the Group.

Valitor adheres to Corporate Governance Guidelines, 5th edition, issued by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederation of Icelandic Employers in June 2015, which are available on the website http://corporategovernance.is/. According to the guidelines, any deviations from the guideline´s instructions shall be identified, reported and justified. Accordingly, any deviations made in Valitor´s governance structure are reported here below.

Article 1.1.6 assumes that prior to election or appointment to the Board of Directors of the Company the Board shall make certain information on candidates to the Board available on the Company's website. This has not been considered necessary, though the pertinent information has been made available along with other information at the Company's Headquarters, prior to an Annual General Meeting, and sent to Shareholders, if so requested.

Article 1.5 assumes that a Shareholders' meeting shall appoint a nomination committee for evaluation and appointment of members to the Board or decide how such a committee shall be appointed. As there are only two Shareholders in the Company, one holding over 90% ownership, this has not been deemed necessary.

Article 2.7.2 provides for the publication of a remuneration policy for the Company, f. ex. on its website. Valitor hf. only discloses the policy to its shareholders before an Annual General Meeting as part of the documentation distributed for the meeting.

Section 5 assumes the appointment by Board of sub-committees and discusses their proposed roles. The Board´s sub-committees, i.e. BARC and BRC, were abolished in spring 2020, as part of cost savings and down scaling of the Group´s operations. In February 2021 the BARC was reappointed. The Board will closely monitor the need to reappoint the BRC.

Below individual aspects of the company´s corporate governance in accordance with the Corporate Governance Guidelines is discussed to the extent applicable.

Legal framework for operations

Valitor is a limited liability company operating in accordance with the Companies Act no. 2/1995 as well as the Act on Payment services, no. 120/2011, and holds an operating license from the Financial Supervisory Authority to act as a Payment Institution according to Article 4 of the same Act and thus has operating authorisations according to sections 1-5 and 7 in paragraph 1, Article 4 of Act no. 120/2011. The company must operate in accordance with the Rules on Fair Business Practices of Financial Institutions, Payment Institutions and Electronic Money Institutions, no. 1001/2018.

The Central Bank´s Financial Supervisory Authority (FME) monitors the operations of Valitor as required by law.

An overview of the relevant laws and regulations applicable to the activities of a Payment institution can be found on the FME's website https://fme.is, in addition to various other legislation that applies to the business of financial undertakings, payment services and/or companies´ operations in general.

One of Valtor´s subsidiaries in the UK, Valitor Limited, is an electronic money institution focused on payment acceptance and processing in the UK. The Company has an E-money Institution license and reports to and is monitored by the Financial Conduct Authority in the UK.

Legal framework for operations, contd.:

Internal controls, auditing and Financial Statements

Valitor's internal control framework is organised and based on three-lines of defence, with the aim of ensuring efficiency, defining responsibilities and coordinating the company's risk management and internal control functions. This framework is also intended to promote risk awareness and responsible behaviour among all employees. The methodology distinguishes between those who carry the risk and manage it, those who have control and restraint with internal controls and, finally, those who perform independent audits on the effectiveness of internal controls.

The first line of defence consists of those who oversee day-to-day management of their operations and their organisational unit. They are responsible for maintaining effective internal controls and managing risk in day-to-day operations. This includes analysing and evaluating risk, establishing appropriate controls and mitigation measures, and to oversee the implementation of internal rules and procedures, as well as ensure that the implementation is consistent with intent. Finally, they are responsible for taking appropriate corrective action in response to possible failures or weaknesses.

The second line of defence is set up to ensure that the first line of defence has established adequate execution and control of the proper functioning of their responsibilities. Risk management and compliance are the main factors in the second line of defence, while other units may also be assigned a specific monitoring role.

The third line of defence is internal auditing, which keeps the Board and management adequately informed about the quality of governance, risk management and internal controls, including how the first and second defence lines achieve their goals. This is done by using independent and autonomous audits. Internal auditing of the company is outsourced to specialised consultants in this field, in accordance with guidelines published and authorised by the Financial Supervisory Authority.

Risk Management

Taking risk is an inseparable part of Valitor operations and means that risk must be managed in a successful manner and in accordance with the risk appetite of the Board. The key to effective risk management is the presence of ongoing analysis of significant risk, measurements of the risk base, measures to limit risk, and the monitoring of risk and disclosure. Risk management is an important part of the company's internal management system. The Board is responsible for the Company's internal evaluation process for capital requirements, while the goal of the process is to ensure a total understanding of the Company's major risks and to ensure that there are appropriate systems for analysing, measuring and monitoring the company's major risks. The framework for supervising the risk management system is approved by the Board of Directors.

At Valitor, the risk management function is managed by the Chief Risk Officer (the CRO) who reports directly to the CEO while also having direct access to the management’s Credit and Risk committee. The CRO cannot be discharged without the approval of the Board.

Compliance

The Compliance department, led by the Compliance officer (the CO), analyses, measures and monitors compliance risk. The Compliance Officer is also responsible for the Company's actions against the financing of terrorism, money laundering and other financial crime. The Compliance Officer reports to the CEO and regularly provides information to the CRO as well as other company managers. The CO is a member of the Credit and Risk committee and submits to the Board of Directors a bi-annual report on the Compliance department´s activities.

Data Protection

The company is concerned for protection of data privacy and the rights of its customers in terms of handling their personal data and has for that purpose in place a Data Protection Policy which is published on the Company´s website. The DPO is responsible for monitoring the handling of personal data in the Company´s operations. In his/her role as such, the DPO reports directly to the CEO.

Internal Audit

In 2012, the Financial Supervisory Authority approved the company's request for an exemption from the obligation to operate an internal audit division based on Chapter II of the Supervisory Authority´s Guidelines no. 2/2011. Valitor's internal audit function was, during the fiscal year of 2020, outsourced to KPMG.

Laws and regulations, contd.:

Audit and Financial Statements

The Finance Division handles the preparation of Financial Statements and they are prepared in accordance with International Financial Reporting Standards (IFRS), together with additional requirements in the Act on Annual Accounts, no. 3/2006. Monthly management accounts are submitted to the Board on average 12 times a year. Each corporate division annually plans their budget for the next year's operations. The Company's total operations and each profit centre are settled monthly which enables the Board of Directors to compare results with plans, monitor changes in operations and take action if there are significant negative changes. External auditors review the Company´s Financial Statements once a year as well as the process for preparing them.

Values, ethics and social responsibility

Values

Valitor places emphasis on three key values, Trust, Collaboration and Excellence. It is of great importance to the Company and its operations to have employees that identify with and adhere to these corporate values. A financial company’s most valuable asset is trust and credibility, which is dependent on the ethics of its employees.

Code of Ethics and Conduct

Valitor places emphasis on ensuring that trust and credibility of the company and its employees is a priority with shareholders, customers and the community. Continuing education and employee levels of knowledge, together with the company's rules of conduct, are important elements, but the final outcome always depends on the attitude of the employees concerned. Management prioritizes the creation of an organizational framework and culture that is most likely to nurture and enhance ethical practices by the Company's employees. Valitor maintains a business ethics policy. It includes ethical values and codes of conduct that serve to guide employees in their work.

Corporate Social Responsibility

Valitor recognizes that companies not only have economic impact on their local environment but also have great environmental and social impact. Thus, Valitor has long had social responsibility as a beacon in both internal and external activities and actions, and company communications with customers, employees, service providers and society at large. Valitor seeks to be a responsible advocate in Icelandic society and strives to participate in its advancement. Valitor's corporate social responsibility lies not least in the fact that the Company carries out its role diligently, ensures that customers receive quality service, considers environmental protection and creates good working conditions for employees.

Through Valitor's Social Fund, founded by the company in 1992, it has also supported important projects that improve and enhance life in the community. The Fund has allocated grants to charitable and cultural organisations, young artists and various improvement projects. The Company has also participated in supporting athletes and outdoor activities clubs.

It is Valitor's policy to be exemplary in environmental matters, and the aim is to minimize the negative environmental impact of the company's operations with sustainability as a guideline. A major factor contributing towards this goal is the reduction of greenhouse gas emissions in the fight against global warming. Valitor has signed a climate declaration with Festa and the City of Reykjavík and has set goals in this respect. The negative environmental impact of the company's operations has been minimized by reducing carbon emissions and the company's energy consumption. The company intends to offset its carbon footprint with all company transport and has replaced the majority of its car fleet entirely with electronic or hybrid cars. The company offers green travel grants to its employees, in order to encourage them to utilise environmentally friendly transportation to and from work. Furthermore, Valitor intends to implement eco-procurement processes and employ environmental considerations in doing business with suppliers and service providers. At the same time, education for employees on environmental issues has been increased and employees are encouraged to adopt environmentally friendly practices at work and at home. In addition, a remote work policy has been implemented for the company, giving employees the option to work from home. An emphasis is also placed on online meetings between countries, as well as parts of the country, whenever possible. With reduced employee travel for work, the company contributes to the environment by reducing pollution.

Other information, unaudited contd.:

Values, ethics and social responsibility, contd.:

Corporate Social Responsibility, contd.:
Valitor has in place an agreement with Klappir Grænar Lausnir hf. to monitor the environmental impact of its operations and map Valitor’s ecosystem on a yearly basis. The company's goals for reducing greenhouse gas emissions is published on the company's website.

In April 2019 Valitor was awarded an Equal Pay Certificate by an accredited auditor. This certificate states that the Valitor hf. equal pay management system and the way it is implemented fulfils the requirements of the Equal Pay Standard. The standard is designed to confirm that wage decision benchmarks shall be predetermined and may not involve direct or indirect gender discrimination, nor inequality based on other factors.

Board Members and CEO

The Board of Directors of the Company is the highest corporate authority between shareholders' meetings. The Board handles those aspects of the company's operations not included in day-to-day operations, i.e. approves the overall strategy for the company and makes decisions on matters that are unusual or of major significance. Furthermore, one of the main duties of the Board of Directors is to be a monitoring body over Valitor's activities. The Board of Directors appoints the CEO (who’s responsibility is that of managing director, among other things, in accordance with the provisions of the Act on Public Limited Companies, Annual Accounts, Payments services and Financial Undertakings), decides on his/her terms of employment and confirms authorised signatories. The CEO ensures that the Board receives adequate support to perform its duties. The Board of Directors operates in accordance with the Rules of Procedure of the Board, which stipulate in detail its work, including the independence of the Directors, their powers and scope to bind the firm, division of tasks, minutes of meetings etc. The rules are also intended to ensure equality in the treatment of matters before the Board, to ensure meticulous and objective treatment of cases and to prevent conflicts of interest in Company´s operations. To this end, the Rules of Procedure are intended to strengthen the framework governing transactions of members of the Board and companies related to them with Valitor and access of members of the Board to information on operations and risk in Company operations. The Rules of Procedure of the Board of Directors are set according to Paragraph 5. Article 70 of Act no. 2/1995 on Public Limited Companies, cf. also Article 19 of Act no. 161/2002 on Financial Undertakings, the EBA Guidelines as well as Guidelines on Corporate Governance, in addition to, and with regard to, the Settlement between Valitor and the Competition Authority of 15 December 2014 (hereinafter the Settlement). Rules of Procedure for the Board are published on the Company website.

Valitor's Board consists of five primary members (two women and three men) and two deputies (one woman and one man), all of whom are elected at the Annual General Meeting for a term of one year at a time.

The Board meets on average once a month, and more often if circumstances require. The CEO attends Board meetings with the Board's secretary.

The board has established a sub-committee of the Board, i.e. an Audit and Risk Committee (BARC). The Audit and Risk Committee is appionted by the Board of Directors and reports to the Board following each of its meetings.

Audit and Risk Committee
The committee is the Board´s advisory and supervisory committee and performs the role of supervising financial reporting, the operations of the Company´s internal monitoring, internal audit and risk management, auditing of annual Financial Statements and consolidated statement, the independence of auditors and monitoring of other tasks performed by auditors. In addition, the Audit and Risk Committee shall submit proposals to the Board on the choice of auditor or auditing company.

Members of the Valitor Audit and Risk Committee are as follows:
Þór Hauksson, Chairman of the Valitor Board of Directors
Synnöve Trygg, Member of the Valitor Board of Directors
Guðmundur Kjartansson, State Authorised Public Accountant

Board Members and CEO, contd.:

Information on the number of meetings of the Board

During the calendar year 2020, 14 Board meetings were held. The Chairman of the Board is responsible for the work of the Board and manages its work. The Chairman of the Board chairs meetings and ensures that enough time is spent on discussing important matters and that matters relating to strategy are discussed in detail. The Chairman of the Board is not authorised to accept other work for Valitor hf. except where they constitute a normal part of his/her duties.

The BARC held three meetings during the calendar year 2020 with the committee members, Þór Hauksson, Synnöve Trygg, both Members of the Valitor board, and Eggert Teitsson, the deputy CFO of Arion Bank. The committee was abolished in June 2020 and decided that matters previously addressed by BARC would be covered directly by the Board. In February 2021 the Valitor BARC was reappointed with Guðmundur Kjartansson, State authorised public Accountant, as a new committee member instead of Eggert Teitsson.

The BRC held two meetings during the calander year 2020 with the committee members, Herdís Fjeldsted, Renier Lemmens and Roger Alexander, all Members of the Valitor board. The committee was abolished in June 2020 and decided that matters previously addressed by BRC would be covered directly by the board.

Board Members

Þór Hauksson (1972), Chairman of the Board, MA in Economics and Politics and MBA in Finance, is the former Head of Corporate Finance at Deloitte Iceland and former CEO of Burðarás Investments. Þór joined the Valitor hf. Board on the 8th of October 2019 and was initially elected as vice Chairman but took on the role of Chairman when Herdís Dröfn Fjeldsted resigned as Chairman of the Board to take on the role of the Company´s CEO in March 2020. Þór is also the Chairman of the Board of the operating subsidiary of Valitor, Valitor Limited. Þór has served as a Director in many companies including Vodafone, Advania, NI, Teymi, Vestia, Icelandic Group, Húsasmiðjan and Invent Farma.
Þór owns no shares in Valitor and has no vested interests with commercial parties, competitors or shareholders that own more than 10% holding in the Company.

Renier Lemmens (1964), Vice Chairman of the Board, MSc in Computer Science and MBA, is a professor of Fintech and Innovation at the London institute of Banking and Finance and serves as a Director of the Board of Arion Bank. Renier joined the Valitor Board on 8th of October 2019 and was at the same time elected as a director of the operating subsidiary, Valitor Limited. Renier has served as a director in numerous Boards including Revolut, Zenith Bank Ltd., Novum Bank Ltd., Antenna Company Ltd., Robin Mobile BV, VoiceTrust BV, Krefima NV, Arenda BV as, ZA Life Assurance NV, First Caribbean International Bank and Budapest Bank.
Renier owns no shares in Valitor and has no vested interests with commercial parties, competitors or shareholders that own more than 10% holding in the Company.

Synnöve Trygg (1959), Board Member and an independent consultant. Synnöve was first elected to the Board at a shareholders' meeting on 12 March 2015. Synnöve was the CEO of SEB Kort Bank AB for more than a decade and has served as a Non-Executive Director in listed and non-listed companies. Synnöve has served as a Director in numerous Boards including Mastercard Europé, Trygg Hansa AB, Intrum AB, Nordax Bank AB, Wrapp AB, Landshypotek Bank AB. Synnöve is currently a member of the Board of Volvo Finans AB, SBAB Bank AB and PreciseBiometrics AB.
Synnöve owns no shares in Valitor and has no vested interests with commercial parties, competitors or shareholders that own more than 10% holding in the Company.

Roger Alexander (1948), Board Member and independent consultant. Roger was first elected to the Board at a shareholders' meeting on 12 March 2015. Roger was the CEO of Elavon Merchant Services for years, which is one of the leading acquirers in Europe. In addition, Roger was previously the CEO of S2 Card Services Ltd., a debit card company in the UK with wide distribution. Prior to that Roger worked for 31 years at Barclays bank. Roger has served on the Boards of many companies in the last 15 years, including regulated entities in the UK and Europe. Roger is a member of the Boards of Caxton FX Ltd. and Accourt Ltd.
Roger owns no shares in Valitor and has no vested interests with commercial parties, competitors or shareholders that own more than 10% holding in the Company.

Other information, unaudited contd.:

Board Members and CEO, contd.:

Board Members, contd.:

Guðfinna Helgadóttir (1976), Board Member, has a degree in Business Administration and works as a specialist in Corporate Development with Arion bank. Guðfinna was elected to the Board at a shareholders meeting on 5 May 2020. Guðfinna also serves as a Director in Stefnir Asset Management, Landey and Bjarnaþing among other.
Guðfinna owns no shares in Valitor and has no vested interests with commercial parties, competitors or shareholders that own more than 10% holding in the Company.

Deputy Board Members

Anna Rún Ingvarsdóttir (1968), Deputy Board Member, has a degree in Business Administration and is the CFO of Skakkiturn ehf./ Epli.is. Among the places she has previously worked are Almenna verkfræðistofan hf., Median ehf. (now Handpoint) and Strengur hf. (now Advania). Anna Rún was elected Deputy Board Member at a shareholders' meeting in 2012. Anna Rún owns no shares in Valitor and has no vested interests with commercial parties, competitors or shareholders that own more than 10% holding in the Company.

Theódór Friðbertsson (1981), Deputy Board Member, Bsc. and Msc. in Economics and Business administration and Head of Investor Relations at Arion Bank. Theódór has no vested interests with commercial parties, competitors or shareholders that own more than 10% holding in the Company.

Information on Board Members that are independent of Valitor hf. and major shareholders

The following Board Members and Deputy Board Members are independent of Valitor and of large shareholders of Valitor:

The Board:

Þór Hauksson
Roger Alexander
Synnöve Trygg

Deputy Board

Anna Rún Ingvarsdóttir

Board relations with shareholders

The Chairman of the Board is responsible for communications on behalf of the Board and the Company with shareholders between legally convened shareholders' meetings, which is the primary venue for provision of information to shareholders.

Valitor is not listed on the stock exchange but publishes news of its activities on the company's website and sends out press releases if significant changes have been made to the company's operations. At the Annual General Meeting, the activities of the Company are thoroughly reviewed and furthermore, special shareholders' meetings are scheduled if there is reason to do so.

Board Performance Assessment

In Article 2.6 in the Corporate Governance Guidelines, provision is made for the Board to arrange performance assessment once a year. The Valitor hf. Board conducts a review of each meeting at the end of the meeting with and, on a regular basis, without Valitor management. The Board also conducts a performance assessment once a year where the Board evaluates the efficiency of Board meetings, its work, the composition of the Board, the performance of the CEO, etc.

Other information, unaudited contd.:

Board Members and CEO, contd.:

Information on the CEO of Valitor

Herdís Dröfn Fjeldsted (1971), is Valitor´s CEO. Herdís has a M.Sc. degree in Corporate Finance and she is the former CEO of the Iceland Enterprise Investment Fund. Herdís has served as a non-executive director in many listed and non-listed companies, domestic and international, including Icelandic Group, The Icelandic Canadian Chamber of Commerce (July 2015 - current), Vís hf., Invent Farma, Medicopack A/S, Promens, Icelandair Group and Copeinca. Herdís joined Valitor hf. as a Board member on the 8th of October 2019 but took on the role of CEO in March 2020. Herdís is currently a member of the Board of Valitor´s subsidiary, Valitor Limited.

Herdís owns no shares in Valitor and has no vested interests with commercial parties, competitors or shareholders that own more than a 10% holding in the Company.

Pursuant to the Company´s Articles of Association, the CEO manages the Company´s daily operations and represents the Company in all matters that relate to normal operations. The CEO is responsible for the preparation of a draft Annual Financial Statement and the Board´s Annual report, for accounting, appointment of employees and for Company operations adhering to appropriate legislation. The CEO is required to provide Board Members and auditors with all the information they may request relating to Company operations and that must be provided pursuant to law. The CEO has no call option on shares in the Company.

Working alongside the CEO and providing advice and assistance with operations are managers that together are referred to as the management team. The company has designated that all managers on the management team are also considered key employees, cf. Point 8 Paragraph 1 Article 1 a, of Act no. 161/2002, on Financial Undertakings, cf. FME's Guidelines no. 3/2010, on competency of key employees.

Information on breach of law and regulations, court cases

Valitor hf. has not been denied authority, participation or license to conduct specific transactions or operations. Valitor hf. has not been subject to recall, rescinding or termination of authority, participation or license. Information on court cases related to Valitor can be found in the notes to the Financial Statements.

The Board of Directors updates this corporate governance statement annually.

This corporate governance statement was reviewed and approved by the Board of Directors at its meeting on 23 February 2021.