

**Report of the Board of Directors due to a reduction in share capital
pursuant to paragraph 2 Article 51, cf. Paragraph 2 Article 33 Act no. about limited liability
companies no. 2/1995**

The Board of Directors of Vátryggingafélag Íslands hf. ID no. 690689-2009, Ármúli 3, 108 Reykjavík („VÍS“) puts forward the following proposal for the Company's General shareholders' meeting, which will be held on Wednesday, June 27, 2018.

"The general shareholders' meeting of VÍS, held on June 27th, 2018, agrees that the Company's share capital will be reduced on the basis of para. 2 Art. 51 Act no. 2/1995 on limited liability companies, with payment to shareholders in the amount of ISK 1,800,000,000, and the reduction will be paid through the delivery of shares in Kvika banki hf. The number of shares in Kvika banki hf. which will be delivered to shareholders on the due date, shall be based on the average share price in Kvika banki hf. for the last five business days prior to the date of payment of the share capital reduction. The proposal is approved subject to (1) the approval of the Icelandic Financial Supervisory Authority, in accordance to the requirements of the EU Regulation no. 2015/35, in accordance to Art. 51, regulation no. 585/2017, (2) the Companies Register at the Directorate of Internal Revenue grants the Company an exemption from the duty to issue a call to creditors, in accordance to para. 2 Art. 53 Act no. 2/1995, on public limited companies and (3) that other obligatory criteria are met.

The reduction will be of nominal value ISK 250,000,000 or 250,000,000 shares in VÍS. Reduction amount that exceeds nominal value, or ISK 1,550,000,000 will be deducted from the Company's available equity.

Provided that the conditions of the share capital reduction are met, payment to shareholders shall be made as soon as possible, but no earlier than seven business days after the conditions have been met. The Company shall then send a notification to the Exchange with information on details of the implementation of the reduction, including on payment date. Payment to shareholders shall be based on the Company's share register at the end of the trading day five business days before the payment date.

The payment of the share capital reduction is subject to that the number of shares in Kvika banki hf. required for the reduction of the share capital, does not to exceed 300,000,000 shares, but if the condition is not fulfilled, the reduction in share capital shall be cancelled. "

As a basis for the decision of the Board of Directors of putting forward the above mentioned proposal on reduction of share capital, information is provided in accordance with para. 2 Art. 51. Act on Public Limited Companies No. 2/1995, and in accordance with Para. 2 Art. 33 same law. In addition to the Company's annual accounts for 2017, the interim financial statements for the first three months of 2018 are presented.

The purpose of this report is to provide information on whether anything of a significant matter has occurred related to the Company's financial position and has taken changes after the accounts of the previous fiscal year were made.

Since the approval of the annual accounts for 2017, the Company has presented an interim financial statement for the first quarter of 2018. At the same time, the Company published an updated earnings forecast which assumes that the combined ratio for the year 2018 will be 94.9% and that the profit before tax will amount to 3,400 million ISK.

The Board of Directors believes that nothing of a significant matter has occurred related to the Company's financial position and that has taken changes after the accounts of the previous fiscal year were made.

The Board of VÍS recommends that the proposal for a reduction in share capital be approved by the General shareholders' meeting.

Reykjavík, 1 June, 2018

Helga Hlín Hákonardóttir, Chairman of the Board

Gestur Breiðfjörð Gestsson
Sigurðsson

Jón

Svanhildur Nanna Vigfúsdóttir

Valdimar Svavarsson

I undersigned Auditor of VÍS have reviewed the above-mentioned VÍS report, together with specified appendixes, and confirm in my opinion that the report is correct and have no comments on the viewpoints and amounts mentioned.

Certified Accountant at PricewaterhouseCoopers ehf.