

# Vátryggingafélag Íslands hf.

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Condensed Consolidated Interim  
Financial Statements

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**1 January - 30 June 2018**

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Vátryggingafélag Íslands hf.  
Ármúli 3  
108 Reykjavík  
Reg no. 690689-2009

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## Report and Endorsement of the Board of Directors and the CEO

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The condensed consolidated interim financial statements of Vátryggingafélag Íslands hf. ("the Company" or "VÍS") for the period 1st of January to 30 of June 2018 is prepared in accordance with International Financial Reporting Standard (IFRS), IAS 34. The Company's main operations consist of insurance and investment activities. The consolidated interim financial statements consist of the financial statements of the Company and its subsidiary, Líftryggingafélag Íslands hf., together referred to as "the Group".

### Operation

According to the statement of profit or loss and other comprehensive income the Group's profit for the period amounted to ISK 552 million. The Group's assets at end of the period amounted to ISK 50,217 million and equity amounted to ISK 15,692 million according to the balance sheet.

On the 16th of March Kvika Bank equity accounted investee was listed on the First North market. The Group's shares in Kvika Bank at the listing was 23,3% and at the end of the period 21,9%. Kvika Bank is associated company in the Group's financial statement.

General Annual Meeting was held 22nd of March. At the meeting a new board of directors was elected. Chairman of board was voted Svanhildur Nanna Vigfúsdóttir, Vice-chairman of board, Helga Hlín Hákonardóttir, Gestur Breiðfjörð Gestsson, Valdimar Svavarsson and Jón Sigurðsson. Alternate board members were voted, Ólöf Hildur Pálsdóttir and Sveinn Friðrik Sveinsson.

On June the 1st Helga Hlín Hákonardóttir Vice- chairman of the board took over temporarily as a Chairman of the board.

At the Company's Annual General Meeting on March 22nd, it was decided to pay dividends amounting to ISK 1,322 million. The date of payment was March 28th.

The Company's listed shares amounted to ISK 2,203 million at period end, with each share having a nominal value of ISK 1. There were 696 shareholders at the beginning of the period and 658 at the end of the period. Approximately 43% of shares are owned by domestic pension funds, 7% by domestic fund management companies, 18% by foreign fund management companies, 8% by banks, 17% other legal entities and 7% by individuals.

On June 27th the shareholder meeting approved the Board of Directors proposal regarding policy for the Company's financial structure. Pursuant to the proposal the Company's equity ratio shall be 25-28% in three to five years, and meanwhile reducing the Company's market risk. The Board of Directors shall presume that the Company's reduction at any given time will ensure the Company's future sustainability and i.a. shall consider that: (a) the Company's combined ratio for the last 12 months is less than 99%; (b) the solvency ratio of the Company remains within the Board's defined risk acceptance, currently ranging from 1.35 - 1.70, (c) liquidity remains strong and (d) market risk is reduced.

The Board of Directors proposed that the first step would be to reduce the share capital of the Company of nominal value ISK 250 million with a payment to shareholders in the amount of ISK 1,800 million. The shareholder approved the proposal and the capital reduce took place on July 19th and July 26th the shares were delivered to the shareholders.

With this change of the Company's share in Kvika banki hf. The Company will change it's accounting procedure from equity method as it has been. From July 1st is the share registered in a market price. Accounting effect by this change is ISK 498 million booked as interest income according the exchange rate (8,0) the day the change took place.

### Statement by the Board of Directors and the CEO

According to our best knowledge it is our opinion that the consolidated interim financial statements of Vátryggingafélag Íslands hf. give a true and fair view of the consolidated financial performance of the Group for the period January 1st to June 30 2018, and its assets, liabilities and financial position as at June 30 2018. Further, in our opinion the consolidated interim financial statements give a fair view of the development and performance of the Group's operations and its position at the end of the period end and describe the principal risks faced by the Group.

The Board of Directors and the CEO of Vátryggingafélag Íslands hf. have today discussed the Company's consolidated interim financial statements for the period January 1st to June 30 2018 and confirm them by means of their signatures.

# Report and Endorsement of the Board of Directors and the CEO

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Reykjavík, 22 August 2018

## Board of Directors

Helga Hlín Hákonardóttir  
Chairman of the Board

Svanhildur Nanna Vigfúsdóttir

Gestur Breiðfjörð Gestsson

Valdimar Svavarsson

Jón Sigurðsson

## CEO

Helgi Bjarnason

# Report on Review of Interim Financial Information

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

## Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Vátryggingafélag Íslands hf. as of 30th June 2018 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Reykjavík, 22 August 2018

**PricewaterhouseCoopers ehf**

Kristinn Freyr Kristinsson

## Statement of profit or loss and other comprehensive income for the period 1 January - 30 June 2018

	Notes	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Premiums earned .....		5.494.654	5.140.689	10.797.419	9.960.309
Premiums earned, reinsurers' share .....		(179.595)	(171.495)	(380.440)	(343.600)
<b>Premiums earned, net of reinsurance</b>	6	<u>5.315.059</u>	<u>4.969.194</u>	<u>10.416.979</u>	<u>9.616.709</u>
Interest income .....	7	392.485	162.925	716.330	305.290
Foreign exchange difference .....		112.613	(172.925)	9.938	(170.856)
Fair value changes of financial assets .....	7	(254.475)	348.893	454.610	842.561
Share in profit of associate .....		142.376	136.546	234.040	175.346
<b>Investment income</b>		<u>392.998</u>	<u>475.438</u>	<u>1.414.917</u>	<u>1.152.340</u>
Other income .....		25.404	37.613	51.157	81.801
<b>Total income</b>		<u>5.733.461</u>	<u>5.482.245</u>	<u>11.883.053</u>	<u>10.850.849</u>
Claims incurred .....		(4.936.580)	(3.105.033)	(8.725.080)	(6.617.665)
Claims incurred, reinsurers' share .....		386.918	41.375	377.083	(463.123)
<b>Claims incurred, net of reinsurance</b>	8	<u>(4.549.662)</u>	<u>(3.063.658)</u>	<u>(8.347.997)</u>	<u>(7.080.788)</u>
Changes in risk premium .....		(7.430)	(7.769)	(14.779)	(15.485)
Operating expenses .....		(1.441.464)	(1.247.812)	(2.782.291)	(2.369.614)
Interest expenses .....		(49.737)	(54.632)	(104.451)	(94.927)
Reversal of impairment of accounts receivable .....		(8.466)	(10.593)	(22.481)	(17.424)
<b>Total expenses</b>		<u>(6.056.760)</u>	<u>(4.384.463)</u>	<u>(11.272.000)</u>	<u>(9.578.237)</u>
<b>Profit (loss) before income taxes</b>		<u>(323.300)</u>	<u>1.097.782</u>	<u>611.052</u>	<u>1.272.613</u>
Income taxes .....	9	<u>32.068</u>	<u>(180.925)</u>	<u>(58.740)</u>	<u>(165.207)</u>
<b>Profit for the period</b>		<u>(291.232)</u>	<u>916.857</u>	<u>552.312</u>	<u>1.107.406</u>
<b>Earnings per share:</b>					
Basic and diluted earnings per share .....		(0,13)	0,41	0,25	0,50

The notes on pages 9-15 are an integral part of the interim financial statements.

## Balance Sheet as at 30 June 2018

	Notes	30.6.2018	31.12.2017
<b>Assets</b>			
Operating assets .....		566.960	326.423
Goodwill and other intangible assets .....		774.184	758.098
Tax asset .....		96.205	91.311
Shareholdings in associate .....	10	2.715.661	2.642.231
Financial assets at fair value through profit or loss .....	10	27.841.053	24.684.818
Financial assets held- for sale .....	10	411.803	4.759.952
Bonds and other long-term receivables .....	10	2.994.595	2.379.069
Investments where investment risk is borne by life-insurance policyholders .....		1.323.260	1.330.365
Accounts receivable .....		8.920.955	6.178.620
Reinsurance assets .....		947.798	421.977
Other receivables .....		2.153.516	1.737.267
Cash and cash equivalents .....		1.470.796	1.094.394
<b>Total assets</b>		<b>50.216.786</b>	<b>46.404.524</b>
<b>Equity</b>			
Share capital .....		2.202.642	2.206.874
Statutory reserve .....		625.620	625.620
Other reserves .....		1.986.913	1.822.896
Retained earnings .....		10.876.340	12.111.064
<b>Total equity</b> .....		<b>15.691.516</b>	<b>16.766.454</b>
<b>Liabilities</b>			
Subordinated bonds .....	12	2.658.247	2.623.981
Technical provision .....	13	28.853.721	24.405.660
Technical provision for life-insurance policies where investment risk is borne by the policyholders .....		1.323.260	1.330.365
Accounts payable and other liabilities .....		1.690.041	1.278.064
<b>Total liabilities</b>		<b>34.525.270</b>	<b>29.638.070</b>
<b>Total equity and liabilities</b>		<b>50.216.786</b>	<b>46.404.524</b>

## Statement of Changes in Equity 1 January - 30 June 2018

	Share capital	Statutory reserve	Other reserves	Retained earnings	Total equity
<b>2017</b>					
Equity 1.1.2017 .....	2.223.498	625.620	1.093.461	12.428.163	16.370.742
Dividends paid, ISK 0.46 per share .....				(1.022.809)	(1.022.809)
Total comprehensive income for the period .....				1.107.406	1.107.406
Unrealised fair value changes of securities .....			(90.280)	90.280	0
Unrealised profit of associate .....			38.800	(38.800)	0
Equity 30.6.2017 .....	<u>2.223.497</u>	<u>625.620</u>	<u>1.041.981</u>	<u>12.564.240</u>	<u>16.455.339</u>
<b>2018</b>					
Equity 1.1.2018 .....	2.206.874	625.620	1.822.896	12.111.064	16.766.455
Total comprehensive income for the period .....				552.312	552.312
Unrealised fair value changes of securities .....			184.514	(184.514)	0
Unrealised profit of associate .....			234.040	(234.040)	0
Unrealised fair value for assets held- for sale .....			(254.537)		(254.537)
Treasury shares purchased .....	(4.232)			(46.896)	(51.128)
Dividends paid, ISK 0.60 per share .....				(1.321.585)	(1.321.585)
Equity 30.6.2018 .....	<u>2.202.642</u>	<u>625.620</u>	<u>1.986.913</u>	<u>10.876.340</u>	<u>15.691.516</u>

The notes on pages 9-15 are an integral part of the interim financial statements.



# Statement of Cash Flows for the period 1 January - 30 June 2018

	Notes	YTD 2018	YTD 2017
<b>Operating activities</b>			
Total comprehensive income for the period .....		552.312	1.107.406
Operating items not affecting cash flows:			
Financial income and expenses .....		(677.782)	(39.506)
Fair value changes of financial assets .....		(398.644)	(842.561)
Share in profit of associate .....		(234.040)	(175.346)
Depreciation, amortisation and impairment .....		114.148	80.148
Changes in operating assets and liabilities:			
Tax asset, decrease (increase) .....		(4.894)	128.242
Financial assets, decrease .....		1.036.746	3.199.901
Bonds and other receivables, (increase) .....		(615.527)	(1.359.360)
Accounts receivable, (increase) .....		(2.742.335)	(2.790.272)
Reinsurance assets, (increase) decrease .....		(525.821)	1.066.309
Other assets, (increase) decrease .....		(416.250)	28.350
Technical provision, increase .....		4.448.061	2.248.918
Accounts payable and other liabilities, increase .....		411.977	306.075
Cash flows from operating activities before interest and tax		947.952	2.958.304
Interest income received .....		1.077.657	505.970
Financial expenses paid .....		(70.185)	(67.541)
Income taxes paid .....		0	(527.966)
<b>Cash flows from (to) operating activities</b>		<b>1.955.424</b>	<b>2.868.767</b>
<b>Investing activities</b>			
Purchase of operating assets .....		(303.604)	(63.254)
Purchase of intangible assets .....		(67.166)	0
Sales (purchase) of associate .....		160.610	(1.879.075)
		<b>(210.160)</b>	<b>(1.942.329)</b>
<b>Financing activities</b>			
Purchase of treasury shares .....		(51.128)	0
Dividends paid .....		(1.321.585)	(1.022.809)
		<b>(1.372.714)</b>	<b>(1.022.809)</b>
Decrease in cash and cash equivalents .....		372.550	(96.371)
Cash and cash equivalents at the beginning of the year .....		1.094.394	1.063.335
Effect of movements in exchange rates on cash held .....		3.852	(22.087)
Cash and cash equivalents at the end of the period .....		<b>1.470.796</b>	<b>944.877</b>

The notes on pages 9-15 are an integral part of the interim financial statements.

# Notes

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## 1. Reporting entity

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

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

## 2. Basis of preparation

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Icelandic law on annual accounts. The condensed consolidated interim financial statements do not contain all the information required in consolidated financial statements and should be read in conjunction with its annual consolidated financial statements for the year 2017.

### New standards

One new standard became applicable for the current reporting period, IFRS 15 Revenue from Contracts with Customers. The impact of the adoption of this new standard is immaterial to the group.

The group has postponed the adoption of IFRS 9 Financial Instruments until 2021 when IFRS 17 Insurance Contracts will be adopted.

The annual consolidated financial statements can be accessed on the Company's website [www.vis.is](http://www.vis.is) and on the Icelandic Stock Exchange website; [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com)

The interim financial statements were approved and authorised for issue at a board meeting on 22 August 2018.

## 3. Functional and presentation currency

These consolidated interim financial statements are prepared and presented in Icelandic Krona (ISK), which is the Company's functional currency. All amounts are presented in ISK thousand unless otherwise stated.

## 4. Accounting estimates

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

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

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

- financial assets, see note no. 10
- technical provision, see note no. 13

## Notes

### 5. Operating segments

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

The operating segments' results for the period 1 January - 30 June 2018 are specified as follows:

	Casualty insurance	Life insurance	Financial activities	Total
Premiums earned .....	10.147.456	649.963	0	10.797.418
Premiums earned, reinsurers' share .....	(249.433)	(131.007)	0	(380.440)
Investment income .....	526.705	18.448	869.764	1.414.917
Other income .....	51.157	0	0	51.157
<b>Total income .....</b>	<b>10.475.885</b>	<b>537.404</b>	<b>869.764</b>	<b>11.883.052</b>
	Casualty insurance	Life insurance	Financial activities	Total
Claims incurred .....	(8.464.291)	(260.789)	0	(8.725.080)
Claims incurred, reinsurers' share .....	302.418	74.665	0	377.083
Change in risk premium .....	(11.736)	(3.042)	0	(14.779)
Operating expenses .....	(2.249.682)	(176.745)	(355.865)	(2.782.291)
Interest expenses .....	0	0	(104.451)	(104.451)
Reversal of impairment of accounts receivable .....	0	0	(22.481)	(22.481)
<b>Operating segment result .....</b>	<b>52.593</b>	<b>171.492</b>	<b>386.967</b>	<b>611.052</b>
Income taxes .....				(58.740)
<b>Profit for the year .....</b>				<b>552.312</b>

Depreciation of operating assets and software in the amount of ISK 85 million and ISK 1 million are included in the operating results of casualty insurance and financial activities, respectively. Investments in software and operating assets of casualty insurance amounted to ISK 371 million.

The operating segments' results for the period 1 January - 30 June 2018 are specified as follows:

	Casualty insurance	Life insurance	Financial activities	Total
Premiums earned .....	9.386.590	573.718	0	9.960.308
Premiums earned, reinsurers' share .....	(242.652)	(100.949)	0	(343.600)
Investment income .....	489.415	16.880	646.045	1.152.341
Other income .....	81.801	0	0	81.801
<b>Total income .....</b>	<b>9.715.154</b>	<b>489.651</b>	<b>646.045</b>	<b>10.850.850</b>
Claims incurred .....	(6.390.819)	(226.846)	0	(6.617.665)
Claims incurred, reinsurers' share .....	(528.761)	65.638	0	(463.123)
Change in risk premium .....	(14.184)	(1.301)	0	(15.486)
Operating expenses .....	(1.887.904)	(184.450)	(297.261)	(2.369.614)
Interest expenses .....	0	0	(94.927)	(94.927)
Reversal of impairment of accounts receivable .....	0	0	(17.424)	(17.424)
<b>Operating segment result .....</b>	<b>893.487</b>	<b>142.691</b>	<b>236.434</b>	<b>1.272.612</b>
Income taxes .....				(165.207)
<b>Profit for the year .....</b>				<b>1.107.405</b>

Depreciation of operating assets and software in the amount of ISK 51 million and ISK 1 million are included in the operating results of casualty insurance and financial activities, respectively. Investments in software and operating assets of casualty insurance amounted to ISK 63 million.

## Notes

### 6. Premiums earned, net of reinsurance

	YTD 2018	YTD 2017
Premiums written .....	14.291.244	13.531.498
Premiums written, reinsurers' share .....	(617.569)	(571.983)
Change in unearned premiums .....	(3.493.826)	(3.571.189)
Change in unearned premiums, reinsurers' share .....	237.129	228.383
Premiums earned, net of reinsurance .....	<u>10.416.979</u>	<u>9.616.709</u>

### 7. Financial income

	YTD 2018	YTD 2017
Interest income on bank accounts .....	20.435	17.869
Interest income on financial assets held -for sale .....	318.171	0
Interest income on financial assets held-to-maturity .....	0	100.834
Other interest income .....	377.724	186.587
Financial income.....	<u>716.330</u>	<u>305.290</u>
Fair value change of shares.....	67.275	360.018
Fair value change of other financial assets.....	387.335	482.543
Fair value change of financial assets.....	<u>454.610</u>	<u>842.561</u>

Fair value change of financial assets includes dividend income from shareholding amounting to ISK 158 (YTD 2017:193) million.

### 8. Claims incurred, net of reinsurance

	YTD 2018	YTD 2017
Claims incurred .....	7.785.623	7.891.121
Claims incurred, reinsurers' share .....	(71.490)	(806.597)
Change in claims provision .....	939.457	(1.273.456)
Change in claims provision, reinsurers' share .....	(305.594)	1.269.721
Claims incurred, net of reinsurance.....	<u>8.347.997</u>	<u>7.080.788</u>

### 9. Income taxes

Income taxes are calculated and recognised in the interim financial statements.

#### Effective tax rate:

	1 January - 30 June 2018		1 January - 30 June 2017	
	Amount	%	Amount	%
Profit (loss) before income taxes .....	611.052		1.272.613	
Income tax according to domestic tax rate .....	122.210	20,0%	254.523	20,0%
Non-deductible expenses .....	3	0,0%	3	0,0%
Dividends received .....	(31.625)	-5,2%	(38.640)	-3,0%
Fair value changes of financial assets .....	27.305	4,5%	(27.610)	-2,2%
Share in profit of associate .....	(46.808)		(35.069)	-2,8%
Share of profit of non-taxable companies .....	(12.346)	-2,0%	0	0,0%
Special financial activity tax .....	0	0,0%	12.000	0,9%
Income taxes according to the statement of profit or loss .....	<u>58.740</u>	<u>9,6%</u>	<u>165.207</u>	<u>13,0%</u>

## Notes

### 10. Investment securities

Financial assets designated at fair value through profit or loss are specified as follows:

	30.6.2018	31.12.2017
<b>Shares in other companies</b>		
Listed on domestic stock exchange .....	5.402.864	6.268.010
Other companies .....	3.206.043	3.159.936
	<u>8.608.907</u>	<u>9.427.946</u>
<b>Other securities</b>		
Government backed securities, indexed .....	1.270.632	364.953
Government backed securities, non-indexed .....	5.320.695	5.467.603
Other bonds .....	7.196.970	4.902.936
Bond funds .....	2.888.810	2.391.392
Alternative investment funds .....	2.555.040	2.129.989
	<u>19.232.146</u>	<u>15.256.873</u>
<b>Financial assets held-to-maturity</b>		
Listed government backed securities .....	411.803	4.759.952
Total financial assets at fair value .....	<u>28.252.856</u>	<u>29.444.770</u>
<b>Bonds and other long-term receivables are specified as follows:</b>		
Loans pledged by real estates .....	2.994.595	2.379.069
<b>Shareholdings in associate</b>		
Kvika banki hf.* .....	2.715.661	2.642.231
Investment securities .....	<u>33.963.112</u>	<u>34.466.070</u>

The market price of the share in Kvika bank hf. 30.6.2018 is 3.073.241. See note 15.

## Notes

### 11. Fair value hierarchy

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

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

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

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

#### Group

30 June 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value .....	20.696.609	1.404.832	5.739.612	27.841.053
Fair value of held-to-maturity financial assets .....	56.215	355.588	0	411.803
Financial assets total .....	<u>20.752.824</u>	<u>1.760.420</u>	<u>5.739.612</u>	<u>28.252.856</u>

#### Group

31 December 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value .....	17.416.365	1.494.925	5.773.528	24.684.818
Fair value of held-to-maturity financial assets .....	1.877.043	2.882.909	0	4.759.952
Financial assets total .....	<u>19.293.408</u>	<u>4.377.834</u>	<u>5.773.528</u>	<u>29.444.770</u>

Changes that fall under level 3 in the period are specified as follows:

	2018	2017
Balance at 1.1. ....	<u>6.287.454</u>	<u>5.490.544</u>
Purchased .....	769.252	1.125.987
Sold / Repayments .....	(1.232.804)	(936.509)
Interest and fair value changes .....	(84.290)	297.087
Balance at 30.6. ....	<u>5.739.612</u>	<u>5.977.108</u>

### 12. Subordinated bonds

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

## Notes

### 13. Technical provision

Technical provision is determined as best estimate in accordance with provisions of Solvency II regulation.

	30.6.2018	31.12.2017
<b>Technical provision (total):</b>		
Unearned premiums .....	10.632.956	7.139.130
Claims provision .....	17.183.376	16.243.919
Risk margin .....	1.037.389	1.022.611
Total technical provision .....	<u>28.853.721</u>	<u>24.405.660</u>
<b>Reinsurers' share:</b>		
Unearned premiums .....	354.385	117.258
Claims provision .....	593.412	287.818
Total reinsurers' share .....	<u>947.797</u>	<u>405.076</u>
<b>Technical provision, net of reinsurance:</b>		
Unearned premiums .....	10.278.571	7.021.872
Claims provision .....	16.589.964	15.956.101
Risk margin .....	1.037.389	1.022.611
Total technical provision, net of reinsurance .....	<u>27.905.924</u>	<u>24.000.584</u>

Technical provision is calculated based on the Company's best estimate according to Solvency II regulation on unsettled claims at reporting date which have been reported to the Company and as well as for claims incurred but not reported at reporting date to the Company or not reported adequately. Unearned premiums represent the Company's estimated amounts of the proportion of the duration of each policy issued that extends into periods beyond the reporting date.

### 14. Related parties

Related parties are those parties, or their companies, that have an influence on the Group, whether directly or indirectly. Related parties are large shareholders, board members and members of the boards sub-committees, key management personnel and their families, as well as other parties directed by or under the influence of the Group, i.e. associates. Transactions with related parties have been on the same terms as with unrelated parties.

Transactions and balances with related parties are specified as follows:

	1.1. - 30.6.2018		30.6.2018	
	Income	Expenses	Assets	Liabilities
Board of directors and key management personnel .	6.332	572	2.934	0

### 14. Related parties (contd.)

	1.1. - 30.6.2017		31.12.2017	
	Income	Expenses	Assets	Liabilities
Affiliated companies .....	0	1.546	0	0
Board of directors and key management personnel .	4.166	13.727	17.343	563
	<u>4.166</u>	<u>15.273</u>	<u>17.343</u>	<u>563</u>

## Notes

### 15. Events after the reporting date

On June 27th the shareholder meeting approved the Board of Directors proposal regarding policy for the Company's financial structure. Pursuant to the proposal the Company's equity ratio shall be 25-28% in three to five years, and meanwhile reducing the Company's market risk. The Board of Directors shall presume that the Company's reduction at any given time will ensure the Company's future sustainability and i.a. shall consider that: (a) the Company's combined ratio for the last 12 months is less than 99%; (b) the solvency ratio of the Company remains within the Board's defined risk acceptance, currently ranging from 1.35 - 1.70, (c) liquidity remains strong and (d) market risk is reduced.

The Board of Directors proposed that the first step would be to reduce the share capital of the Company of nominal value ISK 250 million with a payment to shareholders in the amount of ISK 1,800 million. The shareholder approved the proposal and the capital reduce took place on July 19th and July 26th the shares were delivered to the shareholders.

With this change of the Company's share in Kvika banki hf. The Company will change it's accounting procedure from equity method as it has been. From July 1st is the share registered in a market price. Accounting effect by this change is ISK 498 million booked as interest income according the exchange rate (8,0) the day the change took place.

### 16. Key ratios

	YTD 2018	YTD 2017
Claims ratio .....	80,8%	66,4%
Net claims ratio .....	80,1%	73,6%
Operating cost ratio .....	22,5%	20,8%
Reinsurers' cost ratio .....	0,0%	8,1%
Combined ratio .....	103,3%	95,4%
Solvency ratio of the Group .....	1,38	1,61

### 17. Quarterly statements

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Premiums earned .....	5.494.654	5.302.765	5.217.344	5.349.950	5.140.689
Premiums earned, net of reinsurance .....	5.315.058	5.101.921	5.044.383	5.179.130	4.969.194
Investment income .....	392.998	1.021.919	456.206	( 258.781)	475.438
Other income .....	25.404	25.753	34.175	21.596	37.612
Total income .....	5.733.461	6.149.592	5.534.764	4.941.945	5.482.244
Claims incurred .....	(4.936.580)	(3.788.501)	(3.580.882)	(3.797.574)	(3.105.033)
Claims incurred, net of reinsurance .....	(4.549.662)	(3.798.335)	(3.720.903)	(3.753.405)	(3.063.658)
Changes in risk premium .....	(7.430)	(7.349)	219.613	(7.815)	(7.769)
Operating expenses .....	(1.441.464)	(1.340.827)	(1.282.698)	(1.296.159)	(1.247.812)
Impairment of accounts receivable and interest expenses ....	(58.203)	(68.729)	(99.893)	(69.714)	(65.225)
Profit before income taxes .....	(323.300)	934.351	650.883	(185.148)	1.097.781
Income taxes .....	32.068	(90.808)	(154.478)	(92.842)	(180.925)
Total comprehensive income for the period .....	(291.232)	843.544	496.404	(277.990)	916.856
Claims ratio .....	89,8%	71,4%	68,6%	71,0%	60,4%
Net claims ratio .....	85,6%	74,5%	73,8%	72,5%	61,7%
Operating cost ratio .....	23,1%	21,9%	21,5%	21,2%	21,3%
Reinsurers' cost ratio .....	-3,8%	3,9%	6,0%	2,4%	2,5%
Combined ratio .....	109,1%	97,3%	96,1%	94,6%	84,2%