



# **Tryggingamiðstöðin hf.**

**Consolidated Financial Statements  
for the year 2018  
ISK**

Tryggingamiðstöðin hf.  
Síðumúla 24  
108 Reykjavík  
Iceland

Reg no. 660269-2079

Please note.

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

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

### Main operation

The consolidated financial statements comprise of Tryggingamiðstöðin hf. (Parent) and its subsidiaries (together referred to as the "Group"). Tryggingamiðstöðin's main operation is insurance and financial operations.

### Operations and financial position 2018

According to the Profit and Loss Account, the Group's operating profit amounted to ISK 701 million. The Group's revenue amounted to ISK 17,516 million during the year. The average number of employees was 125. The Group's assets at year end amounted to ISK 34,651 million, liabilities at year end amounted to ISK 21,347 million and equity at year end 2018 was ISK 13,303 million according to the balance sheet. The Group's equity ratio was 38.4% at year end and the solvency ratio 1.74 after dividend payment.

### Appropriation of net profit

The Board of Directors proposes a dividend payment in 2019 of ISK 1 (2018: ISK 2.2) per each outstanding share, or the amount of ISK 700 million (2018: ISK 1,500 million). The dividend payment corresponds to 5% (2018: 11%) of equity or 4% (2018: 7%) of the market value of share capital at year end 2018. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

### Share capital

The Company's share capital at year end amounted to ISK 678 million. The Company's shares are in a single class of shares listed on the Nasdaq OMX Nordic Exchange. All shares confer the same rights.

The Company's share capital is at year end divided between 921 shareholders, compared to 899 at the beginning of the year. The ten largest shareholders at year end and their share in the Company is specified as follows:

Shareholders:	Share in ISK thousand	Share in %
Lífeyrissjóður verslunarmanna .....	67,749	9.99
Gildi lífeyrissjóður .....	61,921	9.13
Birta lífeyrissjóður .....	53,034	7.82
Íslandsbanki hf. ....	52,046	7.67
Lansdowne Icav, Lansdowne Euro .....	50,485	7.44
Lífeyrissj.starfsm.rikk. A-deild .....	48,240	7.11
Helgafell ehf. ....	45,000	6.64
CF Miton UK, Multi Cap Income .....	34,754	5.12
Stefnir - ÍS 15 .....	23,937	3.53
Einir ehf. ....	19,591	2.89
	456,757	67.34
Other shareholders .....	221,386	32.66
Total issued capital .....	678,143	100.00

Further information on share capital is included in note 30 and is accessible on the Company's website, [www.tm.is](http://www.tm.is).

### Corporate governance

The Governance of TM follows the Companies Act no. 2/1995, Act no. 100/2016 regarding insurance activities and Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, Nasdaq Iceland hf. and the Confederation of Icelandic Employers, last issued in May 2015. However TM does not follow the guidelines in relation to allowing the shareholders to participate meetings electronically, in whole or partially, there including to vote without being present. Based on the size and composition of the Groups shareholders, there have not been a reason to deviate from existing arrangements. Shareholders are instead offered to vote in writing as allowed by the Companies Act. Nomination Committee has been appointed by shareholders meeting in October 2018. Referenced laws can be accessed on the website of the Parliament, [althingi.is](http://althingi.is) and the guidelines can be found on the website of the Icelandic Chamber of Commerce, [vi.is](http://vi.is). Additionally, the corporate governance is based on various internal rules that have been set such as the Articles of Association, Rules of Procedure of the Board, the Audit Committee and the Remuneration Policy. These rules can be accessed on the Company's website, [tm.is](http://tm.is). The Company has been recognized as Exemplary in Corporate Governance by the Center of Corporate Governance at the University of Iceland.

## Report and Statement of the Board of Directors and the CEO, contd.

### Think ahead

In line with community change, TM's customer service has changed dramatically during the time the company has operated. The needs and circumstances of people are different, they are constantly changing and the service needs to be taken into account. TM's main challenge today is the major changes that have been made due to rapid technological advances. Computer and smartphone development has already transformed many in everyday life in a short time and business and services are increasingly moving to that platform. Consumers are increasingly demanding and expect companies to meet them with appropriate solutions at the right time. At TM, we realize that innovation is the key to meeting the demands of the future. It is our mission to meet our customers with new solutions and service options that meet their requirements. TM's goal is to offer products and services that exceed customers' expectations and strengthen their ties with them more widely than before. In a short time, the company has launched a smartphone application for its customers, the analysis tool for Wage Protection TM and the web site of individual insurance, which has no counterpart on the Icelandic insurance market and elsewhere. TM has thus taken the lead as a leading provider of digital solutions for its customers and underlined the intention to be the company that thinks in the future.

### Risk Management

Vigorous risk management makes the Company better prepared to deal with unexpected events in the external environment and increases its competitiveness. TM has a coordinated risk management that operates in accordance with the risk management policy that is approved by the Board. In the policy the risk management process is defined and roles and tasks are indicated. The Board and Management manage the Company's risk in accordance with the Risk Appetite Statement, in which the tolerable and acceptable risk limits are defined. The risk management monitors and measures risk and informs the Board of the Company quarterly with risk reports about whether the risk taking and solvency is within the predefined risk limits of the Board.

The internal control of the company is based on a clear organisational structure along with segregation of duties and guidelines, as well as management system on information security, everything is under the supervision of internal auditors. Internal control aims to ensure that the Company is achieving its operating objectives and other objectives regarding its activity, that all information is accurate, and that current legislation is being followed.

### The Board of Directors'

The Board of Directors is elected at the Annual General Meeting and shall consist of five members and two alternates.

Board members are:

Andri Þór Guðmundsson, Business Administration. CEO of Ölgerðarin Egill Skallagrímssonar ehf. Einar Örn Ólafsson, Engineer. Investor. Kristín Friðgeirsdóttir, Engineer. Lecturer at the London Business School. Ragnheiður Elfa Þorsteinsdóttir, Lawyer. Lecturer at the University of Akureyri. Örvar Kærnested, chairman of the Board, cand. oecón. Investor.

Alternate members are:

Bjarki Már Baxter, Lawyer. Chief Counsel at Wow Air. Bryndís Hrafnkelsdóttir, Business Administration. CEO of Happraetti Háskóla Íslands. The Board of Directors is in charge of the Company's operations and has overall control over the Company's operations. The work of the Board generally takes place at the Board meetings. The meetings shall be held at least every two months.

The CEO is responsible for daily operation and makes decisions on the subjects for which he is responsible and are not assigned to others by laws. Daily operations do not include measures that are unusual or significant, the competence of the CEO is further illuminated in his contract of employment, the Company's risk taking intention and its investment strategy that the Board has approved. The CEO is responsible for providing information to the Board about operation and other things that the Board considers necessary to fulfil its obligations. The CEO of Tryggingamiðstöðin is Sigurður Viðarsson.

The Audit Committee is one of two subcommittees of TM. The Audit Committee now consists of the Board members Andri Þór Guðmundsson and Einar Örn Ólafsson. Anna Skúladóttir, Certified Public Accountant, is also part of the committee and is the Chairman of the committee. The Audit Committee shall meet a minimum of four times a year. It is its role to supervise the accounting, internal control of the Company, and more.

The Remuneration Committee is the other subcommittee under TM's Board of Directors. The committee consists of two members of the Board of directors, Kristín Friðgeirsdóttir, who is also the chairman of the committee, and Ragnheiður Elfa Þorsteinsdóttir and also Atli Atlason, cand. oecón. The Remuneration Committee shall meet a minimum of twice annually. The Committee's purpose is to prepare decisions of the Board of Directors about general remuneration policy of the Company regarding compensations to the CEO and other members of the board according to Companies Act.

The composition of the Board and alternate members shall meet the requirements of the Companies Act to ensure that the proportion of male or female is not lower than 40%. The main board is comprised of two women and three men. The Board has not set any other policies on diversity in management of the company other than that candidature for the Board shall be individuals with different backgrounds.

## Report and Statement of the Board of Directors and the CEO, contd.

### Corporate Social Responsibility

The Company's policy for Social Responsibility includes three main pillars, prevention, privacy and data protection, and support for community growth. The Company's main role is to offer services to individuals, companies and institutions and to assist them with appropriate insurance and to recover from setbacks. The Company's employees and the Board of Directors believe that with Social Responsibility as a guidance, they can significantly reduce likelihood of setbacks that have an adverse effect on its image and reputation. Social responsibility is used on daily decision making basis and therefore has a positive impact on society, improves resource utilisation, increases knowledge and reduces costs. A clear vision of Social Responsibilities also adds value to the Company's integrity and fairness.

The Company has signed Festa and Reykjavík city's declaration for Climate Change with targets in place for 2030. The Company's goal is to reduce carbon emissions by at least 34% and increase waste sorting to 98% during that time. In 2015 the Company launched systematic measurements for Climate Change and in 2018 carbon emissions were measured at 1,29 tons per employee (2017: 1,37 tons).

The Company's main employee policy is that the company employs qualified, honest and innovative staff, and for TM to provide their employees with the best conditions to perform their work and the potential to grow and develop in their work. A clear employee policy supports the Company in providing and maintaining excellent services to customers and work colleagues. At TM everyone submits contributions to create an excellent working environment. The Company's policy is to ensure employees feel comfortable in the workplace where they are actively involved with support and fairness from the Company. Communication and appearance is characterised by honesty, respect and trust. Analysis of the workplace are performed regularly and results are systematically used in order to increase job satisfaction. TM emphasizes gender equality and equality is among top priorities in the Company's future development and vision. Each employee is evaluated for their own merits regardless of gender and all discrimination is prohibited within the company in whatever form it appears. TM has been declared with equal pay assurance since 2014 and was one of the first companies to receive Capacent's assurance of gender equality.

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

The consolidated financial statements of Tryggingamiðstöðin hf. have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and other disclosure requirements for consolidated financial statements with listed shares on a regulated stock market.

According to the best of our knowledge, the consolidated financial statements of Tryggingamiðstöðin hf. for the year 2018 give a true and fair view of the assets, liabilities, financial position at year end and financial performance of the Group during the year.

Further, in our opinion the consolidated financial statements and the statement of the Board of Directors and the Chief Executive Officer give a fair view of the development and performance of the Company's operations and its position and describes the principal risks and uncertainties faced by the Group. Reference is made to notes 35-40 in the consolidated financial statements regarding information on financial risk management.

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of Tryggingamiðstöðin hf. for the year 2018 and confirm them by means of their signatures. The Board of Directors and the CEO submit the financial statements to the Annual General Meeting for approval.

Reykjavík, February 15, 2019

#### Board of Directors:

Örvar Kærnested  
Andri Þór Guðmundsson  
Einar Örn Ólafsson  
Kristín Friðgeirsdóttir  
Ragnheiður Elfa Þorsteinsdóttir

#### CEO:

Sigurður Viðarsson

## Independent Auditors' Report

### To the Board of Directors and Shareholders of Tryggingamiðstöðin hf.

#### Opinion

We have audited the accompanying consolidated financial statements of Tryggingamiðstöðin hf. and its subsidiaries (the Group) which comprise the Report and Statement of the Board of Directors and the CEO, the consolidated income statement and the consolidated statement of comprehensive income for the year 2018, the consolidated balance sheet as of December 31 2018, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and that the directors report includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the consolidated financial statements.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements applicable in Iceland and are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### Key Audit Matters

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

<b>Key Audit Matters</b>	<b>Audit procedures</b>
<p><b>Estimate of claims outstanding, including assumptions and calculations on which it is based on.</b> Refer to note 32 "Claims outstanding "</p> <p>Claims outstanding is the value of reported claims and actuarial plan for claims incurred but not reported and amounts to ISK 12,725,055 thousand at the end of the year 2018 and represents 60% of total liabilities.</p> <p>Claims outstanding is a material financial statement line item. Because of complexity and the magnitude of estimation in relation to calculation of the claim reserve it is a key audit matter in our audit.</p> <p>The estimation of claims outstanding is dependent on professional judgement and is based on total amount of reported outstanding, plus actuarial estimate of claims that have incurred but not yet been reported, settlement costs and other factors. In making these estimations, best estimates of future contractual cash flows and claims handling are used.</p> <p>It is specifically difficult to estimate claims incurred but not yet reported at each reporting date as there can be limited information about the claim. In addition there is more variability between initial estimates and final estimates for claims where there is a greater length of time between the initial claim event and settlement.</p> <p>The valuation of outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, for which small changes in assumptions can result in material impacts to the estimates.</p>	<p>PwC's actuarial specialists assisted us in performing our audit procedures.</p> <p>Audit of claims outstanding estimates included, among others, the following factors:</p> <p>Claims handling process and the estimation process were understood and evaluated. We understood and evaluated management's presumptions in estimating the claims outstanding, including historical data about settlement of claims to different business classes. Our evaluation included, among other things, reviewing and assessing important factors in the estimation of the claims outstanding.</p> <p>We tested control activities.</p> <p>We tested with sampling completeness and accuracy over the data which the claims estimations are based on. We tested reconciliations between systems which the claims outstanding calculations are based on.</p> <p>PwC's actuarial specialists performed independent calculation of the claims outstanding.</p> <p>We performed sampling testing on insurance policy, unsettled and settled claims.</p> <p>Related notes were reviewed.</p>

## Independent Auditors' Report contd.

<b>Key Audit Matters</b>	<b>Audit procedures</b>
<p><b>Valuation of unlisted securities</b> Refer to note 24 "Financial assets and financial liabilities"</p> <p>Securities are the Group's largest asset amounting to ISK 26,438,425 thousands or the equivalent of 76% of total assets at year end 2018.</p> <p>A significant part of securities assets are listed on the market and therefore their quoted market prices are known at the end of the reporting period.</p> <p>The part of the securities assets requiring special attention in the audit are unlisted securities where fair value is estimated using valuation techniques and is subject to uncertainty. Therefore unlisted securities are a key matter in the audit.</p> <p>Valuation techniques can be the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially comparable, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.</p> <p>These securities are defined in level 2 and 3 according to level of fair value. The value of these securities amount to ISK 12,000,590 thousand or the equivalent of 35% of total assets at the year end 2018.</p>	<p>PwC's valuation experts assisted us in auditing unlisted securities.</p> <p>Audit of valuation of unlisted securities included, among other things, the following factors:</p> <p>Investment process was understood and evaluated. We understood and evaluated the methodology and assumptions for valuations and compared with common criteria for similar assets.</p> <p>The data on which the calculation and assumptions were based on in different valuation methods were reviewed and assessed.</p> <p>We performed sampling procedures of securities and performed an independent calculation on fair value.</p> <p>We verified those cases where valuation was based on recent transaction.</p> <p>Classification of securities in fair value levels was reviewed.</p> <p>Related notes were reviewed.</p>

### *Other information in the annual report*

The Board of Directors and CEO are responsible for other information. Other information comprises the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is not available at our signing date of our opinion but is expected to be made available to us prior its publication.

Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read other information in the annual report when it is available 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.

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

## Independent Auditors' Report contd.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with those charged with governance 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.

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

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

Reykjavík, February 15, 2019

### **PricewaterhouseCoopers ehf.**

Arna G. Tryggvadóttir  
State authorized public accountant

Bryndís Björk Guðjónsdóttir  
State authorized public accountant



## Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year 2018

	Notes	2018	2017
Premiums earned .....		16,372,562	15,615,544
Outward reinsurance premiums .....		( 724,417)	( 630,763)
<b>Earned premiums, net of reinsurance</b>	10	<u>15,648,145</u>	<u>14,984,781</u>
Finance income .....	11	1,805,031	3,718,006
Finance income from investment properties .....	12	12,010	31,822
Other income .....		51,034	36,879
<b>Total income</b> .....		<u>17,516,220</u>	<u>18,771,488</u>
Claims incurred .....		( 13,923,477)	( 12,205,660)
Claims incurred, reinsurers' share .....		787,393	333,138
<b>Claims incurred, net of reinsurance</b>	13	<u>( 13,136,084)</u>	<u>( 11,872,522)</u>
Operating expenses .....	14	( 3,541,144)	( 3,404,574)
Interest expenses .....	16	( 183,532)	( 161,537)
Impairment .....	17	44,960	( 125,936)
<b>Total expenses</b> .....		<u>( 16,815,800)</u>	<u>( 15,564,569)</u>
<b>Profit before income tax</b> .....		700,420	3,206,919
Income tax .....	19	351	( 83,866)
<b>Profit and Comprehensive Income for the year</b> .....		<u>700,771</u>	<u>3,123,053</u>
<b>Attributable to</b>			
Equity holders of the parent .....		700,771	3,123,055
Minority interest .....		0	( 2)
		<u>700,771</u>	<u>3,123,053</u>
<b>Earnings per share</b>			
Basic and diluted earnings per share .....	18	1.03	4.61

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

## Consolidated Balance Sheet as of December 31, 2018

	Notes	31.12.2018	31.12.2017
<b>Assets</b>			
Operating assets .....	21	325,187	342,615
Investment properties .....	22	0	48,171
Goodwill and other intangible assets .....	23	489,277	313,151
Restricted cash .....		4,637	6,743
Loans .....	24	1,053,650	1,299,709
Securities .....	24	26,438,425	26,290,067
Investment where investment risk is borne by life-insurance policyholders ....	25	36,721	27,903
Deferred tax asset .....	26	88,311	81,046
Assets classified as held for sale .....	27	3,111	9,540
Reinsurance assets .....	28	720,176	498,028
Trade receivables .....	29	4,051,892	4,611,990
Cash and cash equivalents .....	24	1,439,187	1,129,841
		<u>34,650,574</u>	<u>34,658,804</u>
<b>Equity</b>			
Share capital .....		678,143	678,143
Share premium .....		425,516	425,516
Reserves .....		270,710	270,710
Restricted reserves .....		4,362,638	4,640,460
Retained earnings .....		7,566,140	8,087,546
Shareholders equity .....		<u>13,303,147</u>	<u>14,102,375</u>
Minority interest .....		0	26
	30,31	<u>13,303,147</u>	<u>14,102,401</u>
<b>Liabilities</b>			
Technical provision .....	32	18,132,744	17,191,363
Technical provision for life-insurance policies where investment risk is borne by the policyholders .....	25	36,721	27,903
Liabilities in connection with investment properties .....	33	0	25,803
Trade and other payables .....	34	1,004,956	1,201,702
Subordinated debt .....	33	2,173,006	2,109,632
		<u>21,347,427</u>	<u>20,556,403</u>
		<u>34,650,574</u>	<u>34,658,804</u>

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity for the year 2018

	Equity holders of the Parent Company							Minority interest	Total equity
	Share Capital	Share premium	Reserves	Restricted reserves	Retained earnings	Total			
Equity 1.1.2017 .....	678,143	425,516	270,710	2,238,832	8,866,119	12,479,320	28	12,479,348	
Comprehensive income .....					3,123,055	3,123,055	( 2)	3,123,053	
Restricted reserves .....				2,401,628	( 2,401,628)				
<b>Shareholders</b>									
Paid out dividends .....					( 1,500,000)	( 1,500,000)		( 1,500,000)	
	0	0	0	0	( 1,500,000)	( 1,500,000)		( 1,500,000)	
Equity 31.12.2017 .....	678,143	425,516	270,710	4,640,460	8,087,546	14,102,375	26	14,102,401	
Equity 1.1.2018 .....	678,143	425,516	270,710	4,640,460	8,087,546	14,102,375	26	14,102,401	
Comprehensive income .....					700,771	700,771	0	700,771	
Restricted reserves .....				( 277,822)	277,822				
<b>Shareholders</b>									
Paid out dividends .....					( 1,500,000)	( 1,500,000)		( 1,500,000)	
Change in minority interest .....							( 26)	( 26)	
	0	0	0	0	( 1,500,000)	( 1,500,000)	( 26)	( 1,500,026)	
Equity 31.12.2018 .....	678,143	425,516	270,710	4,362,638	7,566,140	13,303,147	0	13,303,147	

In June 2016, the Icelandic Parliament passed a legal reform of the Icelandic Financial Statements Act no. 3/2006, which limits the permitted amount for distribution of dividends. Under the new law, companies that apply the measurement of financial assets at fair value through profit and loss have to recognize unrealized fair value changes before income tax, as appropriate, to restricted retained earnings. Realised fair value changes are recognized from restricted to unrestricted retained earnings. In addition to these changes, if share of profit of its subsidiaries and associates are higher than the received dividend or the dividend that has been decided to distribute then the difference shall be recognized among restricted retained earnings.

Due to uncertainties in the interpretation of certain Articles, the disclosure of retained earnings in the Consolidated Financial Statements of TM hf. for the year 2018 may change following further clarification of the Act. The change will concern potential reclassification between restricted reserves and retained earnings.

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows for the year 2018

	Notes	2018	2017
<b>Net cash from operating activities</b>			
Premiums, received .....		16,308,611	14,617,252
Claims, paid .....	(	12,696,799)	( 10,693,383)
Operating cost, paid .....	(	3,055,391)	( 2,852,599)
		<u>556,421</u>	<u>1,071,270</u>
<b>Net cash from insurance activities</b>			
Finance income, received .....		446,714	403,873
Finance expense, paid .....	(	120,158)	( 121,057)
Investments income, received .....		1,091,644	728,711
Finance income from investment properties, received .....		944	781
Operating cost, paid .....	(	416,644)	( 388,991)
		<u>1,002,500</u>	<u>623,317</u>
<b>Net cash from investments activities</b>			
Income tax paid .....	(	211,195)	( 281,766)
		<u>1,347,726</u>	<u>1,412,821</u>
<b>Net cash from operating activities</b>			
<b>Investing activities</b>			
Securities, change .....		289,618	139,567
Restricted cash, change .....		2,106	183,002
Loans, change .....		306,815	288,788
Investment properties, change .....		111,024	60,043
Operating assets, additions .....	(	44,156)	( 44,599)
Operating assets, sales .....		32,500	26,782
Intangible assets, additions .....	(	210,636)	( 123,197)
		<u>487,271</u>	<u>530,386</u>
<b>Net cash flow used in investing activities</b>			
<b>Financing activities</b>			
Dividend paid to shareholders .....	(	1,499,848)	( 1,499,750)
Borrowing, change .....	(	25,803)	( 26,642)
		<u>( 1,525,651)</u>	<u>( 1,526,392)</u>
<b>Net cash flow used in financing activities</b>			
<b>Increase in cash and cash equivalents .....</b>		309,346	416,815
<b>Cash and cash equivalents at the beginning of the year .....</b>		<u>1,129,841</u>	<u>713,026</u>
<b>Cash and cash equivalents at the year-end .....</b>	24	<u><u>1,439,187</u></u>	<u><u>1,129,841</u></u>

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

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## Notes

### 1. The Company

Tryggingamiðstöðin hf.'s ("The Company") registered office is at Síðumúli 24 in Reykjavík, Iceland. The consolidated financial statements of Tryggingamiðstöðin hf. as at and for the year ended 31 December 2018 comprise the company and its subsidiaries, together referred to as the "Group". List of the subsidiaries is included in note 43. Tryggingamiðstöðin's main operation is non-life insurance, life insurance and financial operation.

### 2. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements were approved by the Board of Directors of Tryggingamiðstöðin hf. on February 15, 2019.

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

### 3. Functional and presentation currency

The consolidated financial statements are prepared in Icelandic Krona (ISK), which is the Company's functional currency. All financial information has been rounded to the nearest thousand unless otherwise noted.

### 4. Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates at the dates of the transactions. 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. Foreign exchange differences arising on translation are recognised in the income statement.

### 5. Basis of consolidation

Subsidiaries are entities over which the Group has control. Control exists where the Group has the power to govern the financial and operating policies of an entity for its benefit. When assessing control, potential voting rights that are currently exercisable are taken into account. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Transactions between companies within the Group, balances between them and unrealised gains and losses on transactions between Group companies are eliminated. Minority interest represents net assets that the Group does not own, neither directly nor indirectly. Minority interest is shown separately in the consolidated income statement and is included in equity in the consolidated balance sheet, separately from equity attributable to shareholders of the Group.

Associates are entities over which the group has significant influence but are neither subsidiaries or joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies. The Groups investments in associates are accounted for using the equity method, but they are classified within securities in the Balance sheet as the purpose for the investment is the same as with other investments in securities. "

### 6. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for securities and investment properties, which are measured at fair value.

### 7. Use of estimates and judgements

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions. that can affect the reported amounts of assets and liabilities, as well as income and expenses. Actual outcome can later, to some extent, differ from the estimates and assumptions made.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

#### Key sources of estimation uncertainty

##### (i) *The ultimate liability arising from claims made under insurance contracts*

The estimation of the expected final liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the ultimate liability. The main uncertainty is in the assessment of damages of reported claims as well as assessment of unreported claims. The Group uses standard actuarial claims projection techniques to estimate the ultimate claim cost. Risk related to non-life insurance, especially accident insurance, depends on many factors that can make the sensitivity analysis difficult. For further reference refer to note 32 and for sensitivity analysis in note 36.

## Notes, contd.

### 7. Use of estimates and judgements, contd.

#### (ii) *Determination of fair values of financial instruments*

As indicated in note 24 the Group's securities are mostly measured at fair value. For the majority of these financial instruments, quoted market prices are readily available. Methods used to estimate the fair value of unquoted securities are based on recognised valuation techniques. The greatest uncertainty is due to a lack of access to information from relevant business units and the assessment of liquidity premium.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement e.g. interest rates, volatility, estimated cash flows etc.

#### (iii) *Determination of impairment of financial assets*

Financial assets accounted for at amortised cost are evaluated for impairment on the basis described in note 17. The assessment for impairment is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

### 8. Changes in accounting policy and disclosures

#### (i) *Standards, amendments and interpretations effective on or after 1 January 2018.*

There are no IFRS's or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2018 that would be expected to have a material impact on the group. At the beginning of the year a few standards were adopted that have negligible or no impact on the Group's financial statement.

#### **IFRS 9 Financial Instruments**

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 'Financial Instruments' does not apply to rights and obligations arising under (i) an insurance contracts as defined in IFRS 4 'Insurance Contracts', other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract or (ii) a contract that is within the scope of IFRS 4 because it contains a discretionary participation feature. However, IFRS 9 applies to a derivative that is embedded in a contract within the scope of IFRS 4 if the derivative is not itself a contract within the scope of IFRS 4.

The Group, on the other hand, has significant financial assets related to investment in its insurance operation and also has financial liabilities other than insurance liabilities. IAS 39 'Financial Instruments: Recognition and measurement' now applies to these financial assets and financial liabilities, and the new standards IFRS 9 'Financial Instruments' will apply to those assets and liabilities when it will be effective.

The International Accounting Standards Board approved an amendment of IFRS 4 'Insurance Contracts' in September 2016, where insurance companies were given the option of either modifying the treatment of certain contracts recognized under IFRS 9 'Financing' or postponing the adoption of the standard, subject to certain conditions, until 1 January 2022. A new standard for insurance contracts, IFRS 17, will then be applied, and both of these standards will be adopted concurrently.

## Notes, contd.

### 8. Changes in accounting policy and disclosures, contd.

The Group has decided to postpone the adoption of the new standard IFRS 9 'Financial Instruments' until January 1, 2022, as it meets the conditions for postponement according to IFRS 4, para. 20A, as the Group has not previously used IFRS 9 and its operation is predominantly connected with insurance. The Group will therefore continue to use the standard IAS 39 'Financial Instruments: Recognition and measurement'

The Group considers the valuations of financial instruments according to IAS 39 is a prudent approximation of its valuation according to IFRS 9.

#### IFRS 15 Revenue from Contracts with Customers

##### *Nature of change*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

##### *Impact*

The new IFRS 15 standard does not apply to contracts covered by IFRS 4 'Insurance Contracts', or IFRS 9 'Financial Instruments'. Other income of the Group is insignificant, and the effect of the new standard is next to none.

##### *Date of adoption by group*

Mandatory for financial years commencing on or after 1 January 2018.

#### (ii) *New standards, amendments and interpretations issued but not yet effective.*

The following standards have been issued but are not effective for the financial year beginning 1 January 2018 and not early adopted.

<i>Standard/ interpretation</i>	<i>Content</i>	<i>Applicable for financial years beginning on/after</i>
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance	1 January 2022

#### IFRS 16 Leases

##### *Nature of change*

IFRS 16 was issued in January 2016 and is mandatory from 1 January 2019. The standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

##### *Impact*

The Group has reviewed all its leases with respect to these new accounting principles in accordance with IFRS 16. The standard will primarily affect the Group's operating leases.

As at 31 December 2018 the group had non-cancellable leases amounting to 625 million ISK, see note 14. Of these, approximately 3 million are short term or will be completed within one year. No lease agreements are below the minimum limit, but such contracts would be recognized directly in profit or loss.

The Group expects that other leases will be added to the Balance sheet on 1 January 2019, as an Right-of-use assets amounting to ISK 532 million, a liability due to leases amounting to ISK 625 million and an income tax asset amounting to ISK 18 million. The effect on the Group's equity will be ISK 74 million. The method used by the group is the cumulative catch-up approach.



## Notes, contd.

### 8. Changes in accounting policy and disclosures, contd.

The Group expects that net profit after tax will increase by approximately ISK 6.3 million. Operating cash will increase and financing cash flow will decrease by ISK 128 million as part of the lease payment will be classified as cash flow from financing activities.

Some additional disclosures will be required from next year.

#### *Adoption by group*

The group will apply the standard from its mandatory adoption date of 1 January 2019. The group will apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

#### **IFRS 17 Insurance Contracts**

##### *Nature of change*

The accounting standard IFRS 17 'Insurance Contracts' was issued in May 2017 and will be effective in accounting periods beginning on or after 1 January 2022. Implementation before that time is allowed. IFRS 17 basically changes the accounting of all companies that issue insurance contracts.

IFRS 17 'Insurance Contracts' establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of insurance companies.

##### *Impact*

The Group has not estimated the impact of this new insurance accounting standard on its financial statements.

##### *Date of adoption by group*

Mandatory for financial years commencing on or after 1 January 2022.

#### (iii) *c) Early adoption of standards*

No standards have been early adopted by the Group, prior mandatory, in the year 2018.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## Notes, contd.

### 9. Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing related products or services (business segment), and is classified together (segment). Segment reporting is a statement of operating segments, based the Company's management and internal reporting structure.

The segments are non-life insurance, life insurance and financial operation. Furthermore, insurance assets are also divided into discrete groups. Insurance contracts that are considered non-life insurance cover liability damage, accident damage and property damage. Life and health insurance cover premature death and certain serious diseases. Operating profit of a segment, assets and liabilities, includes items that pertain to certain segments.

#### Operating segment

The following segments are the Group's centre operation:

Operating segment	Non-Life insurance		Life insurance		Financial operation		Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Premiums .....	15,731,542	15,014,568	641,020	600,977	0	0	16,372,562	15,615,544
Outward reinsurance premiums .....	( 540,253)	( 461,719)	( 184,164)	( 169,044)	0	0	( 724,417)	( 630,763)
Investment income .....	884,107	605,988	14,290	7,076	906,633	3,104,942	1,805,031	3,718,006
Investment asset income .....	0	0	0	0	12,010	31,822	12,010	31,822
Other income .....	0	0	0	0	51,034	36,879	51,034	36,879
<b>Total income</b> .....	<b>16,075,396</b>	<b>15,158,837</b>	<b>471,146</b>	<b>439,009</b>	<b>969,677</b>	<b>3,173,643</b>	<b>17,516,220</b>	<b>18,771,488</b>
Claims incurred .....	( 13,794,749)	( 12,039,270)	( 128,728)	( 166,390)	0	0	( 13,923,477)	( 12,205,660)
Claims incurred, reinsurers' share .....	725,088	257,203	62,305	75,935	0	0	787,393	333,138
Operating expenses .....	( 3,010,670)	( 2,884,446)	( 110,469)	( 130,891)	( 420,005)	( 389,237)	( 3,541,144)	( 3,404,574)
Interest expenses .....	0	0	0	0	( 183,532)	( 161,537)	( 183,532)	( 161,537)
Impairment .....	0	0	0	0	44,960	( 125,936)	44,960	( 125,936)
<b>Operating profit of segment</b> .....	<b>( 4,935)</b>	<b>492,324</b>	<b>294,254</b>	<b>217,663</b>	<b>411,100</b>	<b>2,496,933</b>	<b>700,420</b>	<b>3,206,919</b>
Income tax .....							351	( 83,866)
<b>Profit for the year</b> .....							<b>700,771</b>	<b>3,123,053</b>
<b>Total assets</b> .....	<b>17,787,379</b>	<b>16,815,896</b>	<b>345,365</b>	<b>375,467</b>	<b>16,517,830</b>	<b>17,467,441</b>	<b>34,650,574</b>	<b>34,658,804</b>
<b>Total liabilities</b> .....	<b>17,787,379</b>	<b>16,815,896</b>	<b>345,365</b>	<b>375,467</b>	<b>3,214,683</b>	<b>3,365,040</b>	<b>21,347,427</b>	<b>20,556,403</b>

## Notes, contd.

### 9. Segment reporting, contd.

The Group's non-Life insurance operations are specified as follows:

#### Year 2018

	Property insurance	Marine, flight and cargo insurance	Motor insurance	General liability insurance	Accident and health insurance	Total P & C	Reinsurance	Total Non-Life insurance
Premiums earned .....	3,287,365	1,528,167	7,885,573	1,083,110	1,947,327	15,731,541		15,731,542
Earned premiums, net of reinsurance .....	3,000,877	1,345,064	7,868,180	1,042,262	1,934,907	15,191,290		15,191,290
Investment income .....	105,141	39,372	450,950	101,455	187,189	884,108		884,107
Claims incurred, net of reinsurance .....	( 2,537,392)	( 1,468,763)	( 6,382,542)	( 998,530)	( 1,684,448)	( 13,071,675)	2,015	( 13,069,661)
Operating expenses .....	( 737,729)	( 313,948)	( 1,520,646)	( 137,407)	( 300,940)	( 3,010,670)		( 3,010,670)
Operating profit .....	( 169,103)	( 398,275)	415,942	7,780	136,708	( 6,947)	2,015	( 4,935)

#### Year 2017

Premiums earned .....	3,058,967	1,623,540	7,709,552	938,239	1,684,270	15,014,567		15,014,568
Earned premiums, net of reinsurance .....	2,849,324	1,433,621	7,689,536	908,473	1,671,895	14,552,849		14,552,849
Investment income .....	65,630	24,539	291,349	77,224	147,246	605,989		605,988
Claims incurred, net of reinsurance .....	( 1,972,471)	( 1,142,098)	( 6,030,642)	( 807,731)	( 1,831,816)	( 11,784,757)	2,691	( 11,782,067)
Operating expenses .....	( 711,588)	( 324,841)	( 1,430,935)	( 132,514)	( 284,567)	( 2,884,446)		( 2,884,446)
Operating profit .....	230,895	( 8,779)	519,308	45,452	( 297,242)	489,635	2,691	492,324

## Notes, contd.

	2018	2017
<b>10. Earned premiums, net of reinsurance</b>		
Premiums written .....	16,708,577	16,017,985
Reinsurer's share .....	( 732,439)	( 637,121)
Change in the gross provision for unearned premiums .....	( 336,015)	( 402,441)
Change in the provision for unearned premiums, reinsurer's share .....	8,022	6,358
Earned premiums, net of reinsurance .....	<u>15,648,145</u>	<u>14,984,781</u>

Premiums are recognised proportionally during the period in which insurance covers. Premium liability is the part of the premium that belongs to subsequent financial years. Recognised premiums in the income statement are therefore the premiums that occurs during the operating year plus transferred premiums from previous years, less premiums for subsequent years. Premiums written for the period are presented less depreciated premium but without commissions or sales cost.

**11. Finance income**

Interest income presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis. Net income from investments in securities comprise gain on sale of shares, changes in fair value of investment and interest income and dividend. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign exchange rate difference comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies. Included in finance income are effects from associates according to the equity method, as the investments in associates are

	2018	2017
Interest income from deposits .....	42,513	45,582
Interest income from bonds .....	99,778	130,416
Other interest income .....	280,164	274,771
Effects from associates .....	172,939	0
Net income from investments .....	1,170,833	3,283,961
Exchange rate difference .....	38,803	( 16,724)
Finance income, total .....	<u>1,805,031</u>	<u>3,718,006</u>

**12. Income from investment properties**

	2018	2017
Change in fair value .....	11,375	27,891
Rental income .....	635	3,931
Total investment asset income .....	<u>12,010</u>	<u>31,822</u>

Changes in valuation represent fair value changes of investment properties as well as gain or loss, shown in note 22. Rental income is recognised in the period it occurs.

	2018	2017
<b>13. Claims incurred, net of reinsurance</b>		
Claims paid .....	( 13,318,111)	( 11,613,374)
Claims paid, reinsurer's share .....	552,260	891,492
Change in claims liability .....	( 561,898)	( 545,751)
Change in risk margin .....	( 43,468)	( 46,535)
Change in the provision for claims, reinsurer's share .....	235,133	( 558,354)
Claims incurred, net of reinsurance, total .....	<u>( 13,136,084)</u>	<u>( 11,872,522)</u>

**14. Operating expenses**

Operating expenses consist of salary expenses, market costs, computer expenses, office and administrative expenses, housing costs, depreciation and other expenses. The largest part of housing costs is the rental cost of the Company's headquarters. The rental contract is in effect until 2023 and the Company has pre-emptive right to rent the asset at the end of the rental period. In addition, the company has entered into three-year lease agreements for

	2018	2017
Salaries and related expenses .....	1,871,748	1,752,512
Operating expenses .....	1,669,396	1,652,062
Operating expenses, total .....	<u>3,541,144</u>	<u>3,404,574</u>

## Notes, contd.

	2018	2017
<b>15. Salaries and related expenses</b>		
Salaries .....	1,467,536	1,386,819
Defined contribution expenses .....	183,796	156,296
Payroll tax .....	200,969	190,108
Other salary related expenses .....	19,447	19,289
Salaries and related expenses, total .....	<u>1,871,748</u>	<u>1,752,512</u>
Average number of full time equivalent employees .....	125	122

The Board of Directors of TM has approved rules regarding a salary bonus system in accordance with applicable rules of the FSA no. 299/2012. Payments during the year according to the system amounted to ISK 23 million. Possible total obligation due to unpaid salary bonus amounts to ISK 33 million has been expensed.

	2018	2017
<b>16. Interest expenses</b>		
Interest expense on borrowings .....	6,004	7,120
Interest expense on subordinated debt .....	175,356	148,423
Other interest expenses .....	2,172	5,994
Interest expenses, total .....	<u>183,532</u>	<u>161,537</u>

**17. Impairment of financial assets**

Financial assets not at fair value through profit and loss are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicate that one or more loss events have occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of that asset.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

	2018	2017
Impairment on securities and loans .....	( 41,556)	( 6,602)
Impairment on accounts receivable .....	( 3,404)	132,538
Impairment, total .....	<u>( 44,960)</u>	<u>125,936</u>

**18. Earnings per share**

Earnings per share is calculated by dividing the profit by the average number of share during the year.

	2018	2017
Profit .....	700,771	3,123,055
Weighted average number of shares.....	678,143	678,143
Basic earnings per share.....	<u>1.03</u>	<u>4.61</u>

Diluted earnings per share is equal to basic earnings per share since the Company has no share options of the Company's personnel or convertible loan agreements.

## Notes, contd.

**19. Income tax and financial activity tax**

Income tax on the profit or loss for the year comprises current tax, financial activity tax and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority, or when companies have joint taxation and assumed that taxes will be jointly

Income tax recognised in the income statement is specified as follows:		2018	2017
Current tax payable .....		0	204,281
Difference between estimated and assessed taxes .....		6,914 (	132,929)
Deferred tax .....		( 7,265)	12,513
Total income tax in income statement .....		( 351)	83,866
<b>Effective tax rate:</b>			
		<b>2018</b>	<b>2017</b>
Profit before income tax .....		700,420	3,206,919
Income tax using Icelandic corporation tax rate .....	20.0%	140,084	641,384
Non tax deductible expenses .....	0.1%	400	114
Tax exempt revenue .....	(21.1%) (	147,749)	(13.3%) ( 425,258)
Other items .....	1.0%	6,914	(4.1%) ( 132,929)
	0.0%	0	556
Effective tax rate .....	2.6%	( 351)	12.1%

**20. Audit firm's fee**

	2018	2017
<b>External auditor</b>		
Audit and review of financial statements .....	17,219	16,874
Other audit services .....	4,335	6,005
Other services .....	833	278
<b>Other audit firms</b>		
Internal audit and other services .....	35,815	8,411

**21. Operating assets**

Operating assets are stated at cost less accumulated depreciation and impairment losses. At the end of each reporting day it is determined whether evidence exists of impairment.

The cost of replacing a part of an item of operating asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as an expense as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of each item of operating assets. The depreciation method, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. The estimated useful lives are as follows:

	Useful Economic Life	Depreciation Rate
Buildings .....	17-33 years	3 - 6%
Other operating assets .....	3-10 years	10 - 33%

## Notes, contd.

**21. Operating assets, contd.**

Tangible assets on the balance sheet are as follows:

	<b>Buildings</b>	<b>Office equipment, hardware, vehicles</b>	<b>Total</b>
Total value 1.1.2017.....	166,078	704,782	870,860
Additions during the year 2017.....	21,226	23,372	44,598
Sold and disposals during the year 2017.....	( 13,419)	( 38,885)	( 52,304)
Total value 31.12.2017.....	<u>173,885</u>	<u>689,269</u>	<u>863,154</u>
Previously depreciated.....	114,742	369,986	484,728
Depreciated during the year.....	3,053	56,509	59,562
Sold and disposals during the year 2017.....	( 4,862)	( 18,888)	( 23,750)
Total depreciation 31.12.2017.....	<u>112,933</u>	<u>407,607</u>	<u>520,540</u>
Book value 31.12.2017.....	<u>60,952</u>	<u>281,662</u>	<u>342,615</u>
Total value 1.1.2018.....	173,885	689,269	863,154
Additions during the year 2018.....	17,747	26,409	44,156
Sold and disposals during the year 2018.....	( 12,350)	( 53,500)	( 65,850)
Total value 31.12.2018.....	<u>179,282</u>	<u>662,178</u>	<u>841,460</u>
Previously depreciated.....	112,933	407,607	520,540
Depreciated during the year.....	3,761	51,343	55,104
Sold and disposals during the year 2018.....	( 11,115)	( 48,255)	( 59,370)
Total depreciation 31.12.2018.....	<u>105,579</u>	<u>410,695</u>	<u>516,274</u>
Book value 31.12.2018.....	<u>73,703</u>	<u>251,483</u>	<u>325,187</u>

Official tax valuations of buildings at year end 2018 amounted to ISK 178 million and land to ISK 30 million, total of ISK 208 million. The insurance value of these assets amounted to ISK 280 million.

**22 Investment properties**

Investment properties are carried at fair value in accordance with the IAS 40 Investment Property and IFRS 13 Fair Value Measurement. All of the investment properties are categorised under Level 2 of the fair value hierarchy. The fair value measurement is performed by the employees of the Company. Assumptions are based on management's assessment and therefore the real value can be different from the valuation. Market values of similar assets are used in the valuation.

Income from investment properties was ISK 12 million (2017: ISK 32 million). Direct operating expense was ISK 1 million (2017: ISK 2 million) and is recognised within operating expenses in the income statement.

The result of the evaluation was an increase in the carrying value of investment properties amounting ISK 9 million recognised in the income statement under finance income from investment properties.

Investment properties are specified as follows:

Book value 1.1.2018.....	48,171
Change in fair value.....	8,994
Disposals.....	( 60,700)
Gain on disposal.....	3,535
Book value 31.12.2018.....	<u>0</u>

## Notes, contd.

**23. Goodwill and Intangible assets****Goodwill**

The goodwill is from the purchase of the Group's Life insurance operation. Calculation of the recoverable amount of cash generating units is based on value in use. The calculations are based on future cash flow prospects, which are based on actual operating outcome and a five year business plan. Future cash flow estimates are extrapolated by using the average rate of growth within the sectors in which the companies operate. A weighted average of a yield claim in each company has been used in order to find the current value of future cash flow estimates.

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined.

**Software**

Software is capitalised on basis of the cost of development as well as the cost of bringing it into use. Software is recognised as an intangible asset and amortised based on estimated time in use, which is 3-10 years. Amortisation is part of operating cost.

Goodwill and intangible assets are specified as follows:

	Goodwill :	Software	Total
Total value 1.1.2017.....	99,916	286,872	386,788
Addition during the year 2017.....	0	123,197	123,197
Sold and disposals during the year 2017.....	0	( 73,351)	( 73,351)
Total value 31.12.2017.....	<u>99,916</u>	<u>336,718</u>	<u>436,634</u>
Previously depreciated.....	0	136,880	136,880
Depreciated during the year.....	0	59,955	59,955
Sold and disposals during the year 2017.....	0	( 73,351)	( 73,351)
Total depreciation 31.12.2017.....	<u>0</u>	<u>123,484</u>	<u>123,484</u>
Book value 31.12.2017.....	<u>99,916</u>	<u>213,235</u>	<u>313,151</u>
Total value 1.1.2018.....	99,916	336,718	436,634
Addition during the year 2018.....	0	210,636	210,636
Sold and disposals during the year 2018.....	0	0	0
Total value 31.12.2018.....	<u>99,916</u>	<u>547,354</u>	<u>647,270</u>
Previously depreciated.....	0	123,484	123,484
Depreciated during the year.....	0	34,510	34,510
Sold and disposals during the year 2018.....	0	0	0
Total depreciation 31.12.2018.....	<u>0</u>	<u>157,994</u>	<u>157,994</u>
Book value 31.12.2018.....	<u>99,916</u>	<u>389,361</u>	<u>489,277</u>
Depreciation ratio.....		10%, 33%	



## Notes, contd.

### 24. Financial assets and financial liabilities

#### a. Financial instruments

##### (i) Financial assets and financial liabilities

Financial instruments comprise investment in stocks and bonds, loans, receivables, cash and cash equivalents, borrowings, trade and other payables.

Financial instruments are recognised initially at fair value. For financial instruments held at fair value through profit and loss, any directly attributable transaction costs increases or decreases the value of the financial instrument. Subsequent to initial recognition financial assets and liabilities are measured as described below.

A financial asset and liability is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Normal purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract are paid, expire or are discharged or cancelled.

##### (ii) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and unrestricted balances held with financial institutions.

##### (iii) Securities

Securities in the balance sheet are financial assets classified as at fair value through profit or loss and designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if purchase and sale decisions are based on their fair value. Financial instruments at fair value through profit or loss are measured at fair value in balance sheet, and changes therein are recognised in profit or loss. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

A portion of unlisted securities is pledged for up to ISK 56 million. kr. at the end of 2018.

The Group classifies its holdings in S121, a holding company for shares in Stodir hf., including unlisted shares (level 2), but the company is considered to be an associate company according to IAS 28 and treated in the accounts according to equity method. The Company's share in S121 is 22.8%, which is valued at ISK 2,377 million at year end 2018. The Company owns one member of the board of S121, but the number of board members is a total of 6. This is an investment that is treated as part of the company's securities portfolio and is not otherwise related to the Company's traditional insurance business.

##### (iv) Loans and accounts receivables

Loans and accounts receivables are financial assets, which carry fixed, calculated payments and are not listed in an active market.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, minus any transaction costs, and are subsequently measured at amortised cost.

Loans and receivables are derecognised when cash flow can no longer be obtained or when the Group has transferred for the most part risk and rewards from the ownership.

##### (v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

##### (vi) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

## Notes, contd.

**24. Financial assets and financial liabilities, contd.****b. Fair value measurement principles for financial instruments**

Securities in the balance sheet consist of investments in equity and debt securities. The fair value of listed securities is based on their quoted market bid prices at the reporting date without any deduction for estimated future selling costs.

If a quoted market price is not available on a stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the investment is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, if possible, using applicable price to earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

**c. Classification and fair value of financial assets and financial liabilities**

The following table shows to which group financial assets and liabilities pertain.

	Financial assets and liabilities at fair value	Loans and receivables	Total book value	Fair value
<b>31 December 2018</b>				
Restricted cash .....		4,637	4,637	
Loans .....		1,053,650	1,053,650	
Securities .....	26,438,389	35	26,438,425	26,438,425
Other assets .....		4,772,068	4,772,068	
Cash .....		1,439,187	1,439,187	
Total financial assets .....	26,438,389	7,269,577	33,707,967	26,438,425
Liabilities in connection with investment properties ...		0	0	
Trade and other payables .....		( 1,004,956)	( 1,004,956)	
Other liabilities .....		( 2,173,006)	( 2,173,006)	
Financial assets - liabilities .....	26,438,389	4,091,615	30,530,005	26,438,425

	Financial assets and liabilities at fair value	Loans and receivables	Total book value	Fair value
<b>31 December 2017</b>				
Restricted cash .....		6,743	6,743	
Loans .....		1,299,709	1,299,709	
Securities .....	26,289,385	681	26,290,067	26,290,067
Other assets .....		5,110,018	5,110,018	
Cash .....		1,129,841	1,129,841	
Total financial assets .....	26,289,385	7,546,992	33,836,378	26,290,067
Liabilities in connection with investment properties ...		( 25,803)	( 25,803)	
Trade and other payables .....		( 1,201,702)	( 1,201,702)	
Other liabilities .....		( 2,109,632)	( 2,109,632)	
Financial assets - liabilities .....	26,289,385	4,209,855	30,499,241	26,290,067

The group does not present the fair value of other financial instruments since their book value is considered to reflect the fair value.

## Notes, contd.

**24. Financial assets and financial liabilities, contd.****d. Level of fair value**

The following table shows financial assets at fair value according to valuation techniques. The techniques are defined in the following manner:

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

Level 2: Valuation techniques based on observable inputs (level 1), either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: The valuation techniques for assets and liabilities are not based on market information. Information as earnings for the relevant company, investments and sale of securities etc.

Reference is made to note 24b for fair value measurement principles for financial assets.

<b>Fair value as at 31.12.2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>State guaranteed securities</b>				
State guaranteed securities .....	2,277,816	2,180		2,279,997
State guaranteed securities funds .....	379,356			379,356
<b>Bonds</b>				
Asset guaranteed bonds .....	5,634,862	679,566		6,314,428
Other bonds .....	410,228	864,612		1,274,840
<b>Shares</b>				
Listed shares .....	2,416,969			2,416,969
Unlisted shares .....		3,273,532	3,642,052	6,915,584
<b>Share certificates</b>				
Equity funds .....				
Debt securities funds .....	2,253,134	1,318,595		3,571,729
<b>Other securities</b>				
Other securities .....	1,065,469	1,940,403	279,650	3,285,522
<b>Total securities</b> .....	<b>14,437,834</b>	<b>8,078,888</b>	<b>3,921,702</b>	<b>26,438,425</b>
<b>Fair value as at 31.12.2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>State guaranteed securities</b>				
State guaranteed securities .....	4,823,404	2,650		4,826,054
State guaranteed securities funds .....	358,729			358,729
<b>Bonds</b>				
Asset guaranteed bonds .....	3,226,594	1,004,729		4,231,323
Other bonds .....	235,085	1,106,221		1,341,306
<b>Shares</b>				
Listed shares .....	2,610,796			2,610,796
Unlisted shares .....		2,837,556	4,758,875	7,596,431
<b>Share certificates</b>				
Equity funds .....				
Debt securities funds .....	553,600	1,037,475		1,591,075
<b>Other securities</b>				
Other securities .....	1,656,101	1,925,131	153,121	3,734,353
<b>Total securities</b> .....	<b>13,464,309</b>	<b>7,913,762</b>	<b>4,911,996</b>	<b>26,290,067</b>

## Notes, contd.

**24. Financial assets and financial liabilities, contd.****d. Level of fair value, cont.**

In 2018, the classification of assets was changed due to changed assumptions when assessing their fair value. Thus, assets amounted to ISK 348 million moved from level 3 to level 1, assets amounting to ISK 132 million transferred from level 1 to level 3 and assets amounting to ISK 182 million transferred from level 3 to level 2.

**Change in assets classified as level 3:**

Balance 1.1. ....	4,911,996
Transferred between levels .....	( 397,813)
Purchased .....	160,125
Sales/dividends/repayments .....	( 1,464,339)
Interest and changes in valuation* .....	711,733
Balance 31.12 .....	<u>3,921,702</u>

\* Of which there are ISK 89 million realised and ISK 623 million unrealised.

The following table shows the assumptions used in the valuation of assets in level 3, including sensitivity to changes in them.

Financial asset	Fair value 31.12.2018	Assumption	Range	Impact on fair value, sensitivity analysis
Unlisted shares	3,642,052	EBITDA growth	1,3%-5,4%	Unlisted shares on level 3 are either assessed at the purchase price, based on equity, based on ratio comparison (properties 1) or based on cash flow assessments (properties 2).
		Return on equity	13,0%-16,4%	5% decrease in value of properties 1 and 2.5% decrease in EBITDA growth and 2.5% increase in return on equity on properties 2 decreases the value of assets of ISK 490 million.
				5% increase in value of properties 1 and 2.5% increase in profit growth and 2.5% decrease in return on equity on properties 2 increases the value of assets of ISK 642 million.

**e. Loans are specified as follows:**

	2018	2017
Bonds with collateral .....	923,797	1,251,461
Other loans .....	199,517	163,600
Unrecognized to income statement, premium and loan cost .....	( 12,164)	( 15,652)
Loans total .....	<u>1,111,150</u>	<u>1,399,409</u>
Provision for losses on loans.....	( 57,500)	( 99,700)
Loans according to balance sheet .....	<u>1,053,650</u>	<u>1,299,709</u>
Current portion.....	344,505	453,245
Non-current portion.....	709,145	846,464

**f. Changes in provision for loans are specified as follows:**

	General provision	Specific provision	Total
Impairment on loans 1.1.2017 .....	93,079	26,521	119,600
Amortization for the year .....	( 13,457)	( 13,457)	( 26,914)
Paid in of previously depreciated .....		159	159
Loan impairment, change .....	( 5,416)	( 1,186)	( 6,602)
Impairment on loans 31.12.2017 .....	<u>87,663</u>	<u>12,037</u>	<u>99,700</u>
Amortization for the year .....	( 2,010)	( 2,010)	( 4,020)
Paid in of previously depreciated .....		1,367	1,367
Loan impairment, change .....	( 41,513)	( 44)	( 41,557)
Impairment on loans 31.12.2018 .....	<u>46,150</u>	<u>11,350</u>	<u>57,500</u>

## Notes, contd.

**25. Investment where investment risk is borne by life-insurance policyholders**

Liftryggingamiðstöðin has offered life-insurance policies which consist of life insurance and contribution to investments funds. Life-insurance policyholder bears the investment risk.

**26. Deferred tax asset**

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

	<b>2018</b>	<b>2017</b>
Deferred income tax asset 1.1.....	81,046	93,559
Income tax for the year.....	351 (	83,866)
Difference between estimated and actual taxes last year.....	6,914 (	132,929)
Income tax payable.....	0	204,281
Deferred income tax asset 31.12.....	<u>88,311</u>	<u>81,046</u>

The deferred income tax asset is attributable to the following items:

Property and equipment.....	( 57,897)	( 46,650)
Trade and other receivables.....	127,375	97,699
Other balance sheet items.....	5,095	29,996
Tax losses carried forward.....	13,738	0
Deferred tax asset 31.12.....	<u>88,311</u>	<u>81,046</u>

Carry forwards of losses from previous years are as follows:

Net loss in 2018, will expire in 2028.....	68,792	0
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**27. Assets classified as held for sale**

Assets held for sale are appropriated assets, taken over by the Company for settlement of claims.

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Real estate .....	445	445
Vehicles .....	2,667	9,095
	<u>3,111</u>	<u>9,540</u>

**28. Reinsurance assets**

Reinsurance contracts are made in order to reduce the Group's risks. Reinsurance contracts can be either proportional or carry risk exceeding a fixed amount.

	<b>2018</b>	<b>2017</b>
Premium reserve, reinsurer's share .....	81,812	73,791
Claims outstanding, reinsurer's share .....	638,363	424,237
Total reinsurance assets .....	<u>720,174</u>	<u>498,028</u>

## Notes, contd.

**29. Accounts receivables**

Financial assets not recognised at fair value are tested on each reporting date to detect whether there is any objective evidence of impairment. Reference is made to note 17 regarding evaluation of impairment on accounts receivables during the year.

	<b>2018</b>	<b>2017</b>
Accounts receivables out of insurance operations .....	3,835,878	4,133,796
Other receivables .....	216,014	478,194
Total receivables .....	<u>4,051,892</u>	<u>4,611,990</u>

**Provision for losses on accounts receivables**

Provision 1.1.....	229,669	121,754
Impairment during the year.....	( 3,404)	132,538
Actual losses during the year.....	( 88,165)	( 24,623)
Total 31.12.....	<u>138,100</u>	<u>229,669</u>

**30. Capital stock and reserve funds****Share Capital**

Total share capital, approved and issued by the Company at year end 2018, amounted to 678 million shares; with a par value of 1 ISK per share.

When share capital is repurchased, the amount paid, including directly attributable costs is deducted from equity. When own shares are sold, share capital is increased.

**Dividend**

Dividend payments to shareholders are recognised as a decrease in equity when approved by an Annual General Meeting. According to Act no. 2/1995 on limited liability companies, dividend may only be distributed on the basis of approved financial statements for previous years, profits transferred from previous years and on demand funds after deducting unadjusted loss and other amounts as stipulated by law or in the Company's Articles of Association. Distribution of dividends from restricted reserves is prohibited according to Act. no. 3/2006.

**Share premium**

Share premium is the difference between the sales value received by the Company upon issue of share capital and the nominal value of issued shares, after deducting cost of issue of new shares taking into account tax effect and purchase value of treasury shares in excess of their nominal value.

**Reserve**

A statutory reserve is established in accordance with Act no. 2/1995 on limited liability companies stipulating that at least 10% of the Company's profit, not used to adjust previous years' losses or contributed to other reserves as required by law, shall be allocated to a reserve until its value reaches 10% of the Company's share capital. When that benchmark has been reached the contribution to the reserve shall be at least 5% until the reserve has reached 25% of the Company's share capital.

**Restricted reserves:****Unrealized fair value changes of financial instruments**

Unrealized fair value changes of financial assets designated at fair value upon initial recognition, taking into account tax effects is recognized in other items among equity accounts. This equity account is restricted.

**Share of profit of its subsidiaries**

If share of profit of its subsidiaries are higher than the received dividend or the dividend that has been decided to distribute then the difference shall be recognized among restricted retained earnings. If the subsidiary has unrealized fair value changes of financial asset designated at fair value upon initial recognition, that amount shall be taken into consideration for the restricted amount in relation to share of profit of its subsidiaries. If interest in subsidiary is sold or amortised the account is dissolved.

## Notes, contd.

**30. Capital stock and reserve funds contd.:**

Restricted reserves are specified as follows:

	Unrealized fair value changes of financial instruments	Share of profit of its subsidiaries	Total
Unrealized change in valuation of fair value instruments .....	4,107,645		4,107,645
Tax effect of unrealized change in valuation of instruments .....	( 272,975)	( 272,975)	( 272,975)
Share of profit of its subsidiaries .....		805,790	805,790
Total year end 2017 .....	<u>3,834,670</u>	<u>805,790</u>	<u>4,640,460</u>
Beginning year 2018 .....	3,834,670	805,790	4,640,460
Unrealized change in valuation of fair value instruments .....	( 483,739)	( 483,739)	( 483,739)
Tax effect of unrealized change in valuation of instruments .....	( 121,977)	( 121,977)	( 121,977)
Share of profit of its subsidiaries .....		327,894	327,894
Total year end 2018 .....	<u>3,228,954</u>	<u>1,133,684</u>	<u>4,362,638</u>

**Retained earnings**

Retained earnings correspond to the Group's unallocated profit or loss from the establishment of the Company less contributions to reserves.

**31. Solvency**

Solvency measures the Company's ability to take on setbacks, thus indicating its financial strength. Solvency capital requirement according to law is the minimum insurance companies have to meet. The Board of Directors has decided to manage TM's solvency ratio between 1.4 and 1.7.

The Group's available capital as defined in Article 88 of the Act on Insurance Activity No. 100/2016, is ISK 14,583 million (2017: ISK 14,920 million). The Group's capital requirements (Article 96 of the Act, art. 100 of the Directive) is ISK 8.362 million (2017: ISK 9,860 million). The board proposes dividend payments of ISK 700 million, bringing the solvency ratio after dividend payment to 1.74.

	2018	2017
Equity according to balance sheet.....	13,303,147	14,102,401
Subordinated debt.....	2,173,006	2,109,632
Intangible assets.....	( 489,277)	( 313,151)
Proposed dividend payment and repurchase program.....	( 700,000)	( 1,500,000)
Difference in IFRS technical results and Solvency II.....	296,604	521,024
Minority interest.....	0	( 26)
Available capital.....	<u>14,583,480</u>	<u>14,919,880</u>
Solvency.....	14,583,480	14,919,880
Solvency requirement (SCR).....	8,362,286	9,859,820
Solvency ratio after dividend.....	1.74	1.51

**32. Technical provisions**

The technical provisions in the consolidated balance sheet represents the amount that the Group is required to have to fulfil its insurance obligations and it consists of the best estimate of claims provisions, a premium provision and a risk margin.

The core of the claims provisions is an actuarial estimate of payments of incurred claims till they will be settled, but less what has already been paid. According to Act on Insurance No. 100/2016 and related legislation, strains are added to the core of the claim's provisions:

1. Expected settlement expenses not allocated to specific claims. This cost is recognized among operating expenses when it is due.
2. The effect of future inflation from the date of accounts to payment.
3. The effect of discounting the future payments using a risk-free interest rate curve.

## Notes, contd.

**32. Technical provisions, contd.**

The premium provision is the part of the premiums already written that cover insurance protection against events happening after the date of accounts, taking into account expected cancellation of premiums.

The risk margin represents the cost of capital that an insurance company would require to take on the obligations of the company.

Reinsurer pay a share of the claim cost in accordance with reinsurance agreements. This part is assessed claim for claim in accordance with the agreements and is shown among assets in balance sheet.

The company has used the same method to estimate claims reserves since 2014. The method is in accordance with IFRS 4 and Act on Insurance No. 100/2016. The claims provision is the same as used in the Solvency calculations, but the estimates of the premium provision and risk margin are not.

The enclosed appendix on page 46 shows the development of the Group's claims for each of the last ten years and claims outstanding for the year at the end of 2018.

The technical provision is specified as follows:

	2018	2017
Technical provisions (total):		
Claims provisions .....	12,725,055	12,163,157
Premium provisions .....	4,887,476	4,551,461
Risk margin .....	520,214	476,746
Technical provisions, total.....	<u>18,132,744</u>	<u>17,191,363</u>

The Group buys reinsurance primarily as Excess of Loss treaties to protect itself against extreme events, but certain lines are protected by Quota Share treaties.

Reinsurer's share:		
Claims provisions .....	638,363	424,237
Premium provisions .....	81,812	73,791
Reinsurer's share, total.....	<u>720,176</u>	<u>498,028</u>

Own technical provisions:		
Claims provisions .....	12,086,692	11,738,920
Premium provisions .....	4,805,664	4,477,670
Risk margin .....	520,214	476,746
Own technical provisions (net), total.....	<u>17,412,569</u>	<u>16,693,336</u>

Estimated reported claims, loss adjustment expenses and claims incurred but not reported are reported as claims outstanding less estimated salvage value of the assets that were damaged. The total salvage value at year end 2018 and 2017 is immaterial.

	Total	Reinsurer's share	Own share
<b>Development of claims provisions due to claims from older accident years in 2018</b>			
Claims provisions from last year .....	12,163,157	( 424,237)	11,738,920
Paid claims in the year due to older accident years .....	( 7,584,377)	427,580	( 7,156,797)
New claims provisions due to older accident years .....	( 6,129,442)	207,559	( 5,921,883)
The change in the effect of discounting of older accident years .....	354,926	0	354,926
Development of claims from older accident years .....	<u>( 1,195,736)</u>	210,902	( 984,834)



## Notes, contd.

## 32. Technical provisions, contd.

	Total	Reinsurer's share	Own share
<b>Claims incurred in the year 2018</b>			
Claims paid .....	5,733,734	( 124,681)	5,609,053
Claims provisions for claims incurred .....	6,595,613	( 430,804)	6,164,809
Claims incurred in the year .....	<u>12,329,347</u>	<u>( 555,485)</u>	<u>11,773,862</u>
Claims provisions due to older accident years .....	6,129,442	( 207,559)	5,921,883
Claims provisions for claims incurred in 2018 .....	6,595,613	( 430,804)	6,164,809
Claims provisions total .....	<u>12,725,055</u>	<u>( 638,363)</u>	<u>12,086,692</u>
Increase in risk margin in 2018 .....	43,468	0	43,468
Increase in premium provisions in 2018 .....	<u>336,015</u>	<u>( 8,022)</u>	<u>327,993</u>

	Total	Reinsurer's share	Own share
<b>Development of claims provisions due to claims from older accident years in 2017</b>			
Claims provisions from last year .....	11,617,405	( 982,591)	10,634,814
Paid claims in the year due to older accident years .....	( 6,789,994)	799,541	( 5,990,453)
New claims provisions due to older accident years .....	( 6,123,268)	395,687	( 5,727,581)
The change in the effect of discounting of older accident years .....	403,218	0	403,218
Development of claims from older accident years .....	<u>( 892,639)</u>	<u>212,637</u>	<u>( 680,002)</u>
<b>Claims incurred in the year 2017</b>			
Claims paid .....	4,823,380	( 91,951)	4,731,429
Claims provisions for claims incurred .....	6,039,889	( 28,550)	6,011,339
Claims incurred in the year .....	<u>10,863,269</u>	<u>( 120,501)</u>	<u>10,742,768</u>
Claims provisions due to older accident years .....	6,123,268	( 395,687)	5,727,581
Claims provisions for claims incurred in 2017 .....	6,039,889	( 28,550)	6,011,339
Claims provisions total .....	<u>12,163,157</u>	<u>( 424,237)</u>	<u>11,738,920</u>
Increase in risk margin in 2017 .....	46,534	0	46,534
Increase in premium provisions in 2017 .....	<u>402,442</u>	<u>( 6,358)</u>	<u>396,084</u>

## 33. Borrowings

	2018	2017
Liabilities in connection with investment properties.....	0	25,803
Subordinated debt.....	2,173,006	2,109,632
Total borrowings.....	<u>2,173,006</u>	<u>2,135,435</u>
Current portion.....	0	364
Non-current portion.....	<u>2,173,006</u>	<u>2,135,071</u>

## 34. Trades and other payables

	2018	2017
Trade payables.....	531,213	510,833
Reinsurance liabilities.....	52,591	48,756
Unpaid taxes.....	0	204,281
Short term debt and accrued expenses.....	421,152	437,832
Total trade and other payables.....	<u>1,004,956</u>	<u>1,201,702</u>

## Notes, contd.

### Financial risk management

#### 35. Overview

The Group has exposure to the following risks in its operation:

- Insurance risk
- market risk
- credit risk
- liquidity risk
- operational risk

Notes 36 - 40 present information and quantitative amounts about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims at developing a disciplined and constructive control environment in which all employees understand their roles and obligations.

The frame for asset allocation is determined by the Group's management who sets the outline for the distribution of the assets to achieve the investment objectives. Risk is measured and quarterly reports are turned in to the Board on how the risk profile of the company is or whether the risk is within defined limits.

#### Solvency capital

Current law on insurance activities states a minimum of requirements of solvency capital for individual insurance company to meet. The requirements are twofold, solvency capital requirement and a minimum amount. The solvency capital requirement weighs heavier for the Group and is intended to be a minimum solvency for insurance companies to meet to operate. The minimum capital requirement amount is lower, or from 25-45% of the solvency capital requirement. The solvency capital requirement is risk based and takes into account all the main risk factors of insurance companies and calculated with a standard formula. All premises are measured with a 99.5% confidence level and therefore amounts in solvency capital requirements are supposed to highlight a loss that actualize with probabilities of 1 to 200 or equivalent to every 200 years on average. The Group now calculates its solvency capital requirements on quarterly basis in accordance with its risk management policy and risk appetite statement. The resulting risks according to the Solvency II standard formula are shown in the following table.

#### **Total risk and Solvency II Capital Requirements acc. to the standard formula**

	2018	2017
Life underwriting risk.....	211,228	198,856
Health underwriting risk.....	1,247,736	1,284,857
Non-life underwriting risk.....	4,278,438	4,231,876
Market risk.....	6,127,944	7,806,346
Counterparty default risk.....	864,658	914,443
Diversification risk.....	( 3,625,266)	( 3,856,751)
Intangible asset risk.....	0	0
Base Solvency Capital Requirements.....	<u>9,104,738</u>	<u>10,579,627</u>
Operational risk.....	514,521	491,864
TLAC of deferred taxes.....	( 1,256,974)	( 1,211,671)
Total risk and Solvency Capital Requirements.....	<u>8,362,286</u>	<u>9,859,819</u>

Diversification effects are subtracted from the total risk because a it is not reasonable for all the risks to happen at once unless they are completely correlated. Some risks have correlations and some not. Therefore a correlation matrix is used to summarise the risks. Adjustment for the loss-absorbing capacity of deferred taxes are subtracted since tax credit into the future would arise if these risks caused the company such a loss.

## Notes, contd.

### 36. Insurance risk

#### Insurance contracts

As part of its insurance operations the Group's entities issue contracts that transfer insurance risk from the customers to the Group.

Insurance contracts are contracts under which the insurer accepts insurance risk from policyholders by agreeing to compensate the policyholders if a specified uncertain future event would occur.

The Group's insurance contracts are categorised in Non-life insurance and Life insurance contracts.

#### *Non-Life insurance*

Insurance contracts that are categorised as in this section are liability insurances, casualty insurance and property insurance.

Liability insurance contracts protect the customers against the risk of causing harm to third parties. Casualty insurance compensates harm that the customer suffers because of an accident. Property insurance contracts mainly compensate the company's customers for damage suffered to their properties. Customers who undertake commercial activities on their premises could also receive compensation of the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

#### *Life and Health insurance*

These contracts insure events associated with human life, for example death or critical illness.

#### Insurance risk

Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer, such as financial loss due to accident, damage, theft, illness, disability or death. The Company compensates certain losses of customers against payment of a premium. A premium is paid at the beginning of the period covered by the insurance protection, the loss is incurred at a later point and settlement can then take some time, which varies based on the nature of the loss and the circumstances. Premium and estimated indemnity must be insured until payment takes place. Premiums must cover all claim cost, operating cost and reasonable mark-up taking into account yield. Specific risk arises as premiums are predetermined but the service is provided at a later point and is undefined at the beginning. This risk is specific for insurance operation and is defined as insurance risk.

Insurance risk is divided into two groups, premium risk and risk of claims outstanding in order to segregate between occurred and future claims.

Premium risk is the risk that future claims, in addition to related expenses, will be higher than anticipated at the time premiums for current insurance contracts were decided and the insurance cover the Company guaranteed thus underestimated. The risk consists in main respect in that the frequency or severity of claims and benefits are greater than estimated. This may be caused by inaccurate assumptions but also temporary effect from individual large claims. Nature of claims can be different from expected or have changed due to developments in society.

The Company monitors frequency of claims and distribution of single claims amounts within each category and responds to changes in pricing or product development if necessary. Premium risk is reduced by distributing the risk between insurance groups and by making reinsurance contracts for significant claims.

Outstanding claim risk is the risk that existing but not settled claims will be higher than estimated. Negative development can be caused by the fact that notified but unsettled claims have been undervalued and that claims not yet notified prove to be higher or more than estimated. This applies to both actual indemnification to the claimant and related expenses, such as clearance of ruins and cost of expert services in evaluations and settlements of claims.

## Notes, contd.

**36. Insurance risk, contd.**

The Company's outstanding claims is based on the evaluation of final cost of all unsettled claims. Significant uncertainty in that evaluation is inevitable. A period of time can pass from when a loss incurs until a claim is notified to the Company as the loss had not been discovered or the claimant was not aware of its right to compensation. Though a damage is known its consequences can remain unknown until later, it is not completely clear what is damaged in an asset damage until repair has begun and permanent consequences of accidents are unclear until long after the accident. Consequences of a damage may at first have been under or overestimated. There also some cases where notified claims do not end in compensation by the Company, either because no loss was incurred, the claim did not fall under the terms of the insurance contract or that the claim did not reach the minimum own risk of the insured.

<i>Own technical provision classified to line of business:</i>	<b>2018</b>	<b>2017</b>
Property insurance.....	1,921,762	1,854,645
Marine, flight and cargo insurance.....	1,312,680	1,163,381
Compulsory Insurance for motor vehicles.....	7,469,868	7,020,691
Comprehensive insurance for motor vehicles.....	1,200,560	1,225,471
Third party liability insurance.....	1,946,376	1,857,794
Accident and health insurance.....	3,271,789	3,262,174
Life insurance.....	238,100	255,731
Sold reinsurances.....	51,434	53,449
Own technical provision total.....	<u>17,412,569</u>	<u>16,693,336</u>

*Sensitivity analysis*

The following table shows changes in claims amounts and insurance liability on comprehensive income.

	<b>2018</b>	<b>2017</b>
1% change in claims amount.....	96,537	87,904
10% change in claims outstanding.....	1,008,552	977,253
Confidence level that corresponds to 10% change in own claims .....	87%	91%

The Group manages its insurance risk, among other things, by making reinsurance contracts where part of the Group's risk exposure with respect to great damages is transferred to reinsurers. The Company has developed its reinsurance strategy where the Company's reinsurers shall provide an official rating from an international rating agency and minimum rating of A-. The Company thereby aims at reducing the risk that reinsurers will not pay their share in major claim events, which fall under the reinsurance contracts. The following table shows the division of premiums to reinsurers according to ratings carried out by international rating agencies, the rating is based on S&P grouping, for the year 2017 and 2018 and an estimated division for the year 2019.

	<b>Estimate 2019</b>	<b>2018</b>	<b>2017</b>
AA+.....	-	-	-
AA.....	2.9%	4.3%	-
AA-.....	39.3%	43.5%	39.7%
A+.....	33.6%	30.9%	36.8%
A.....	8.7%	7.4%	8.5%
A-.....	15.6%	14.0%	15.0%

## Notes, contd.

### 37. Market risk

Market risk is the risk on fluctuations in the fair value or future cash flows of financial instruments due to changes in market rates. The market risks that are specifically examined are: interest rate risk, equity risk and currency risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's strategy on the management of market risk is driven by the Group's investment objectives. The Group's market risk is managed on a daily basis by the employees in accordance with policies and procedures in place. The Group's overall market positions are monitored quarterly, or in some cases more frequently, by the board of directors.

Risk and Solvency capital requirement for market risk is calculated with the standard Solvency II formula. The model includes all major market risks to insurance companies using a value at risk measure with a 99.5% confidence level.

<i>Market risk according to the standard formula</i>	2018	2017
Interest rate risk .....	548,530	287,067
Equity risk .....	4,861,941	6,690,038
Property risk .....	0	12,043
Spread risk .....	1,050,703	634,387
Concentration risk .....	1,922,638	1,665,551
Currency risk .....	323,344	914,597
Diversification .....	( 2,579,212)	( 2,397,336)
Total .....	<u>6,127,944</u>	<u>7,806,346</u>

#### *Interest rate risk*

Interest rate risk is the risk arising on fluctuation in the fair value or future cash flow or financial instruments due to changes in market interests.

Loan interests are reviewed on at least annual basis. Therefore, the Group's risk related to market interests is limited. The carrying amount of insurance contracts is not sensitive to changes in market risk. The Group's on demand cash and cash equivalents is invested in short term securities for a shorter period than one month.

#### *Sensitivity analysis - Interest rate risk*

At year end 2018, the Group owns securities for ISK 10.692 million (2017: ISK 10.823 million) which bear fixed interests. If shifting all yield curves up 1% for these securities it is estimated to have an impact of ISK 656 million (2017: ISK 480 million) on profit before tax.

#### *Securities risk*

Securities risk is the risk arising on fluctuations in the fair value or future cash flow of the Company's listed and unlisted financial instruments.

Sensitivity analysis on shares risk shows how fair value changes of securities fluctuates due to changes in market value, whether there is change in the value of individual investments, issuers of securities or all factors that affect financial instruments.

As the Group's listed financial assets and the majority of unlisted financial assets are recognised at fair value all market changes will affect the Group's investment income.

The Group's management regularly monitor fluctuations on markets which will enable the Group to react quickly to all changes.

#### *Sensitivity analysis - Securities risk*

At year end 2018, 10% decrease in the value of domestic listed securities and 5% decrease in the value of foreign listed securities was estimated to be negative of ISK 242 million (2017: ISK 261 million). If the same method was used on both listed and unlisted securities the value change in underlying position was estimated to be in the amount of ISK 880 million (2017: ISK 978 million).

## Notes, contd.

**37. Market risk, contd.****Currency risk**

Currency risk is the risk arising on fluctuations in the fair value or future cash flow of financial instruments based on changes in foreign currencies rates.

The Group entities invests in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic krona (ISK). Effect of 10% increase (decrease) in the exchange rate index for Icelandic krona will have positive (negative) effect to Group's equity of ISK 129 million (2017: ISK 96 million).

The breakdown of assets and liabilities by currency:

	USD	EUR	NOK	Other	Total
<b>31 December 2018</b>					
<b>Assets:</b>					
Securities .....	233,156	24,538	822,961	404,201	1,484,856
Reinsurance assets .....	8,023	12,806	8,905	5,369	35,103
Trade receivables and other assets .....	65,821	147,037	53,260	41,642	307,760
Cash .....	164,273	285,162	53,566	52,940	555,941
Total .....	<u>471,273</u>	<u>469,543</u>	<u>938,692</u>	<u>504,152</u>	<u>2,383,660</u>
<b>Liabilities:</b>					
Technical provision .....	412,428	283,718	234,844	85,394	1,016,384
Trade and other payables .....	5,838	67,093	4,626	3,616	81,173
Total .....	<u>418,266</u>	<u>350,811</u>	<u>239,470</u>	<u>89,010</u>	<u>1,097,557</u>
Net Balance Sheet position .....	<u>53,007</u>	<u>118,732</u>	<u>699,222</u>	<u>415,142</u>	<u>1,286,103</u>
<b>31 December 2017</b>					
<b>Assets:</b>					
Securities .....	174,550	23,180	677,366	371,982	1,247,078
Reinsurance assets .....	18,779	12,121	9,043	8,121	48,064
Trade receivables and other assets .....	140,405	141,693	81,867	42,472	406,437
Cash .....	66,298	48,384	1,167	89,708	205,557
Total .....	<u>400,032</u>	<u>225,378</u>	<u>769,443</u>	<u>512,283</u>	<u>1,907,136</u>
<b>Liabilities:</b>					
Technical provision .....	336,862	213,062	248,943	74,350	873,217
Trade and other payables .....	867	63,023	1,014	13,396	78,300
Total .....	<u>337,729</u>	<u>276,085</u>	<u>249,957</u>	<u>87,746</u>	<u>951,517</u>
Net Balance Sheet position .....	<u>62,303</u>	<u>( 50,707)</u>	<u>519,486</u>	<u>424,537</u>	<u>955,619</u>

Exchange rate according to Central Bank of Iceland:

	Year end 2018		Year end 2017	
	Buying rate	Selling rate	Buying rate	Selling rate
USD .....	116.05	116.61	104.17	104.67
EUR .....	132.86	133.60	124.70	125.40
NOK .....	13.36	13.44	12.69	12.77

## Notes, contd.

**38. Credit risks**

The Company carries out transactions with securities and loans and its cash is yielded on bank deposits. Payment default or bankruptcy of counterparties in such financial instruments may affect the value of assets.

In its investment policy the Company establishes clear benchmark for composition of asset portfolio and thereby insures diversity therein and in fact sets the Company's risk taking intention. On daily basis, market changes are monitored by employees in accordance with the Company's policy and work procedures. The Company's Board of Directors monitors and analyses the Company's overall credit risk on monthly basis or more often if necessary.

The Group is applying rules for every new loan agreement. The permission to provide a new loan agreement varies between parties, and if certain limits exceeded the Loan Committee shall be involved. With every new loan agreement the counterparty is evaluated and their financial position and payment history is looked at as possible. Rules regarding loan agreements involve limit of new loans in proportion to mortgage value and expected time of duration. All exceptions from these rules have to obtain special approval.

Default of payments are monitored watched extensively and risk of loss is reviewed with provided guarantees and the financial position of the relevant borrower. Clients in default of payments falls in the risk category and can not have further business with the Group unless they pay their debts. Loans are written off based on certain rules. The Group uses defined collecting process, which employees follow and in the process it is decided when loans are supposed to be collected with assistance from external lawyer.

The following table includes information on payment default risk according to the company's classification of counterparties. The classification is based on the S&P rating system:

	<b>A</b>	<b>BBB</b>	<b>Non-official Classi- fication</b>	<b>Total</b>
<b>2018</b>				
Securities .....	2,738,342	1,686,279	22,013,803	26,438,425
Reinsurance assets .....	720,176			720,176
Loans and receivables .....			5,105,542	5,105,542
Cash and restricted cash .....	54,271	1,304,798	84,756	1,443,824
Total financial assets .....	<u>3,512,789</u>	<u>2,991,077</u>	<u>27,204,101</u>	<u>33,707,967</u>
<b>2017</b>				
Securities .....	5,263,430	1,398,477	19,628,159	26,290,066
Reinsurance assets .....	498,028			498,028
Loans and receivables .....			5,911,699	5,911,699
Cash and restricted cash .....	46,313	1,039,879	50,393	1,136,585
Total financial assets .....	<u>5,807,771</u>	<u>2,438,356</u>	<u>25,590,251</u>	<u>33,836,378</u>

## Notes, contd.

## 38. Credit risk, contd.

Loans specify as follows between individuals and companies

	Loans to individuals		Loans to companies		Total	
	2018	2017	2018	2017	2018	2017
Impaired loans.....	8,726	9,055	4,139	22,048	12,865	31,103
Impairment on specific..... loans.....	( 7,417)	( 8,329)	( 3,932)	( 3,708)	( 11,349)	( 12,037)
	<u>1,309</u>	<u>726</u>	<u>207</u>	<u>18,340</u>	<u>1,516</u>	<u>19,066</u>
Loans in default without special impairment.....	19,074	23,451	11,053	223,704	30,127	247,155
Loans not in default.....	456,237	451,402	611,919	669,749	1,068,156	1,121,151
Impairment regarding credit risk.....	( 19,987)	( 30,351)	( 26,163)	( 57,312)	( 46,150)	( 87,663)
	<u>455,324</u>	<u>444,502</u>	<u>596,809</u>	<u>836,141</u>	<u>1,052,133</u>	<u>1,280,643</u>
Loans according to balance sheet.....	<u>456,633</u>	<u>445,228</u>	<u>597,016</u>	<u>854,481</u>	<u>1,053,650</u>	<u>1,299,709</u>

## Age of loans in default without special impairment:

	1 - 3	3 - 6	> 6	Total
	months	months	months	
<b>2018</b>				
Loans to individuals.....	8,022	93	10,957	19,073
Loans to companies.....	10,489	0	563	11,054
Total.....	<u>18,511</u>	<u>93</u>	<u>11,520</u>	<u>30,127</u>
<b>2017</b>				
Loans to individuals.....	5,609	6,132	11,709	23,451
Loans to companies.....	50,263	62,738	110,703	223,704
Total.....	<u>55,872</u>	<u>68,870</u>	<u>122,412</u>	<u>247,155</u>

## 39. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The risk management of the Group mitigates the liquidity risk by assuring adequate liquidity through unforeseen changes in funding sources or market disruption. The Group's financial instruments include investments in unlisted equity investments, which are not traded in an organised public market and which generally may be illiquid. As a result, the Group may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the credit-worthiness of any particular issuer.

To mitigate this risk the Group has a policy of minimum available cash at any given time and in addition to that, the Group's listed financial investments, which represent large part of the total assets, are considered to be readily realised.

The Group matches the cash flows of assets and liabilities in this portfolio by estimating their average duration.

	2018	2017
Insurance liability - life risk (months) .....	8.0	9.8
Insurance liability - non-life risk (months) .....	16.6	15.2



## Notes, contd.

**39. Liquidity risk, contd.**

The following tables indicate the contractual timing of cash flows, without interests, arising from assets and liabilities included in the Group's management of short term insurance contracts as of 31 December:

2018	Carrying amount	Contractual cash flow					
		Non stated maturity	0-1 year	1-2 years	2-3 years	3-4 years	>4 years
Restricted cash	4,637		4,637				
<b>State guaranteed securities</b>							
State guaranteed securities .....	2,279,996		152,433	1,551,452	157,472	353,770	64,869
State guaranteed securities funds .....	379,356						379,356
<b>Bonds</b>							
Assets guaranteed bonds .....	6,314,428		394,394	401,254	895,014	701,877	3,921,889
Other bonds ....	1,274,840		217,194	375,113	108,702	433,354	140,477
<b>Shares</b>							
Listed shares	2,416,969	2,416,969					
Unlisted shares .....	6,915,584	6,915,584					
<b>Share certificates</b>							
Equity funds ....							
Debt securities funds .....	3,571,729	2,100,576	49,811	223,340	663,958		534,044
<b>Other securities</b>							
Other securities	3,285,522	3,285,522					
Loans and receivables .....	5,105,542		3,817,441	805,127	191,250	130,618	161,106
Cash .....	1,439,187	1,439,187					
<b>Total .....</b>	<b>32,987,790</b>	<b>16,157,838</b>	<b>4,635,910</b>	<b>3,356,286</b>	<b>2,016,396</b>	<b>1,619,619</b>	<b>5,201,741</b>
<b>Expected cash flows</b>							
			0-1 year	1-2 years	2-3 years	3-4 years	>4 years
Insurance contr., net .....	16,892,356		8,830,912	4,117,313	2,229,729	953,690	760,712
Difference in cash flows .....	16,095,434	16,157,838	( 4,195,002)	( 761,027)	( 213,333)	665,929	4,441,029
Cumulative differences .....	16,095,434	16,157,838	11,962,836	11,201,809	10,988,476	11,654,405	16,095,434

## Notes, contd.

## 39. Liquidity risk, contd.

2017	Carrying amount	Non stated maturity	Contractual cash flow						
			0-1 year	1-2 years	2-3 years	3-4 years	>4 years		
Restricted cash	6,743		6,743						
<b>State guaranteed securities</b>									
State guaranteed securities .....	4,826,055		265,023	272,319	2,132,826	115,467	2,040,420		
State guaranteed securities funds .....	358,728							358,728	
<b>Bonds</b>									
Assets guaranteed bonds .....	4,231,322		633,610	1,625,508	303,922	235,623	1,432,659		
Other bonds ....	1,341,306		358,157	307,843	303,532	60,988	310,786		
<b>Shares</b>									
Listed shares	2,416,969	2,416,969							
Unlisted shares .....	7,596,431	7,596,431							
<b>Share certificates</b>									
Debt securities funds .....	1,591,076	1,037,475	23,180	23,856				506,565	
<b>Other securities</b>									
Other securities	3,734,353	3,734,353							
Loans and receivables .....	5,911,699		4,436,148	914,807	229,373	151,538	179,833		
Cash .....	1,129,841	1,129,841							
<b>Total .....</b>	<b>33,338,350</b>	<b>16,108,896</b>	<b>5,722,861</b>	<b>3,144,333</b>	<b>2,969,653</b>	<b>563,616</b>	<b>4,828,991</b>		
			Expected cash flows						
			0-1 year	1-2 years	2-3 years	3-4 years	>4 years		
Insurance contr., net .....	16,216,589		8,453,461	3,971,473	2,142,691	916,556	732,408		
Difference in cash flows .....	17,121,761	16,108,896	( 2,730,600)	( 827,140)	826,962	( 352,940)	4,096,583		
Cumulative differences .....	17,121,761	16,108,896	13,378,296	12,551,156	13,378,118	13,025,178	17,121,761		

## Notes, contd.

### 40. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation.

To reduce operational risk there are among other things requirements for appropriate segregation of duties, requirements for the reconciliation and monitoring of transactions, compliance with regulatory and other legal requirements, requirements for the periodic assessment of operational risks faced, training and professional development. The Group's management information security is certified according to ISO 27001 standard.

### 41. Capital management

Policy formulation and procedures within the Group in relation to risk management of equity ensure that the Group has sufficient equity in order to meet with risks in its operation. The Board of Directors aims at maintaining strong equity base in order to support stability and thereby create security for the insured.

The Act on Insurance Companies, no. 100/2016, addresses equity of insurance companies as solvency. Information on the Group's solvency is presented in note 31.

### 42. Related parties

#### *Definition of related parties*

The Group's related parties are subsidiaries, associates, the Board of Directors, CEO, key personnel and related parties, in addition to companies owned by members of the Board of Directors and related parties.

Transactions between the Company and its subsidiaries are accounted for as related party transactions. All transactions with subsidiaries are eliminated at consolidation and are therefore not presented in the related party transaction statement. See note 43 for an overview of consolidated companies.

Transactions with related parties and year end balances are specified as follows:

	Income	Expenses	Assets	Liabilities
<b>2018</b>				
Board, key personnel and related companies .....	181,537	5,896	2,380,048	26
<b>2017</b>				
Board, key personnel and related companies .....	8,478	4,070	2,613	60

## Notes, contd.

**42. Related parties, contd.**

Salaries, contributions to pension funds and benefits to the CEO, Board of Directors and Executives are specified as follows:

	2018		2017	
	Salaries and benefits funds	Contrib. to pension funds	Salaries and benefits funds	Contrib. to pension funds
Sigurður Viðarsson, CEO .....	55,017	6,426	51,396	5,317
Örvar Kærnested, Chairman of the Board .....	10,166	1,298	9,525	1,072
Andri Þór Guðmundsson, Board Member .....	5,488	590	5,275	488
Kristín Friðgeirsdóttir, Board Member .....	5,574	601	5,272	489
Einar Örn Ólafsson, Board Member .....	5,574	590	4,230	399
Ragnheiður Elfa Þorsteinsdóttir, Board Member .....	5,306	572	5,017	465
Linda Björk Bentsdóttir, Board Member .....	0	0	1,045	89
Bjarki Már Baxter, Board Member .....	425	43	630	54
Bryndís Hrafnkelsdóttir, Board Member .....	425	43	400	34
Anna Skúladóttir, Audit committee .....	900	54	1,025	95
Executives (5 - 6) .....	159,480	20,467	166,922	18,997
	<u>248,355</u>	<u>30,684</u>	<u>250,737</u>	<u>27,499</u>

At year end 2018, the Company's CEO owns in total 3.402 thousand shares in the Company through a company owned by him. Chairman of the Board owns in total 13.000 thousand shares in the Company through a company owned by him and other board members 19.711 thousand shares in the Company, either by themselves or through a company owned by them. Furthermore, three executives own in total 1.480 thousand shares in the Company.

At year end, unpaid salary bonus payments due to key management amounted to ISK 22,7 million.

**43. Group entities**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

	Location	Share 2018	Share 2017
Íslensk endurtrygging hf. ....	Iceland	100.0%	99.96%
Líftryggingamiðstöðin hf. ....	Iceland	100.0%	100.0%
TM fé ehf. ....	Iceland	100.0%	100.0%
Trygging hf. ....	Iceland	100.0%	100.0%

**44. Financial Ratios**

The Group's principal financial ratios	2018	2017
Net claims ratio .....	83.9%	79.2%
Net cost ratio .....	19.9%	20.1%
Net combined ratio (claims + cost) .....	103.8%	99.4%
Equity ratio .....	38.4%	40.7%
Return on equity .....	5.3%	24.2%

## Notes, contd.

## 45. Quarterly results (unaudited)

	Q4	Q3	Q2	Q1	Total
Premiums earned .....	4,103,914	4,283,175	4,039,586	3,945,887	16,372,562
Outward reinsurance premiums .....	( 188,876)	( 187,753)	( 188,512)	( 159,276)	( 724,417)
<b>Earned premiums, net of reinsurance</b>	<b>3,915,038</b>	<b>4,095,422</b>	<b>3,851,074</b>	<b>3,786,611</b>	<b>15,648,145</b>
Finance income .....	507,945	234,685	324,793	737,608	1,805,031
Finance income from investment properties .....	( 519)	3,535	8,994	0	12,010
Other income .....	6,040	6,242	30,957	7,795	51,034
<b>Total income</b>	<b>4,428,504</b>	<b>4,339,884</b>	<b>4,215,818</b>	<b>4,532,014</b>	<b>17,516,220</b>
Claims incurred .....	( 3,126,350)	( 3,192,463)	( 4,116,292)	( 3,488,372)	( 13,923,477)
Claims incurred, reinsurers' share .....	( 19,458)	( 62,503)	674,621	194,733	787,393
<b>Claims incurred, net of reinsurance</b>	<b>( 3,145,808)</b>	<b>( 3,254,966)</b>	<b>( 3,441,671)</b>	<b>( 3,293,639)</b>	<b>( 13,136,084)</b>
Operating expenses .....	( 886,599)	( 777,413)	( 901,225)	( 975,907)	( 3,541,144)
Interest expense .....	( 42,310)	( 50,163)	( 40,938)	( 50,121)	( 183,532)
Impairment .....	37,526	( 12,057)	( 29,358)	48,849	44,960
<b>Total expenses</b>	<b>( 4,037,191)</b>	<b>( 4,094,599)</b>	<b>( 4,413,192)</b>	<b>( 4,270,818)</b>	<b>( 16,815,800)</b>
<b>Profit before income tax</b>	<b>391,313</b>	<b>245,284</b>	<b>( 197,373)</b>	<b>261,196</b>	<b>700,420</b>
Income tax .....	( 47,281)	( 37,713)	57,389	27,956	351
<b>Profit and Comprehensive Income for the year</b>	<b>344,032</b>	<b>207,571</b>	<b>( 139,985)</b>	<b>289,152</b>	<b>700,771</b>
<b>Attributable to</b>					
Equity holders of the parent .....	344,032	207,571	( 139,985)	289,153	700,771
Minority interest .....	1	0	0	( 1)	0
	<b>344,033</b>	<b>207,571</b>	<b>( 139,985)</b>	<b>289,152</b>	<b>700,771</b>

**Supplement to note 32 (unaudited)***Movements in technical provisions during the year:*

The upper part of the chart (total amounts) shows how the Group values its total claim amount for the last years. The lower part of the chart (own claim) the reinsurers' share has been deducted from the amounts stated in the upper chart. At year end 2014 the Group changed accounting policy for estimating claims outstanding. Below, the numbers for the years from 2012 are according to the new method and in accordance with other notes. The numbers for the years 2008-2011 are revalued with simplified model of the new method.

**Total amounts***In million*

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Samtals
Estimate of ultimate claims cost at year end:											
-at end of claim year .....	7,402	7,034	7,817	8,446	9,284	10,414	10,788	11,489	11,108	12,623	
-after one year .....	7,881	7,340	8,281	8,168	9,316	10,672	10,817	11,580	11,456		
-after two years .....	8,328	7,380	8,201	7,697	9,124	10,660	11,150	11,960			
-after three years .....	7,964	7,195	7,793	7,499	8,945	10,919	11,558				
-after four years .....	8,014	7,201	7,782	7,624	9,070	10,942					
-after five years .....	7,980	7,168	7,802	7,764	9,119						
-after six years .....	7,973	7,182	7,842	7,790							
-after seven years .....	7,976	7,192	7,870								
-after eight years .....	7,979	7,218									
-after nine years .....	7,984										
Assessment of ccumulated damage and risk premium -											
at year end 2018 .....	7,984	7,218	7,870	7,790	9,119	10,942	11,558	11,960	11,456	12,623	98,520
Cumulative payments											
at year end 2018 .....	( 7,962)	( 7,185)	( 7,858)	( 7,716)	( 9,045)	( 10,733)	( 10,946)	( 10,468)	( 7,724)	( 5,734)	( 85,372)
Risk premium											
at year end 2018 .....	22	33	12	74	74	209	612	1,492	3,732	6,889	12,511
Claims outstanding in respect of prior years (2008 and earlier) .....											96
Total claims outstanding in addition to risk margin at the end of year 2018 .....											<u>13,245</u>
Claims outstanding for life insurance (included above) .....											72

**Claims, own***In million*

Assessment of ccumulated damage and risk premium -											
at year end 2018 .....	7,816	7,058	7,240	7,591	8,629	9,787	11,030	11,132	11,123	12,032	93,437
Cumulative payments											
at year end 2018 .....	( 7,794)	( 7,025)	( 7,228)	( 7,517)	( 8,556)	( 9,580)	( 10,431)	( 9,639)	( 7,583)	( 5,574)	( 80,926)
Risk premium											
at year end 2018 .....	22	33	12	74	73	207	599	1,493	3,540	6,458	12,511
Claims outstanding in respect of prior years (2008 and earlier) .....											96
Total claims outstanding in addition to risk margin at the end of year 2018 .....											<u>12,607</u>