



Tryggingamiðstöðin hf.

Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2018

Tryggingamiðstöðin hf.
Síðumúla 24
108 Reykjavík
Iceland

Reg no. 660269-2079

These Condensed Consolidated Interim 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

The Condensed Consolidated Interim Financial Statements of Tryggingamiðstöðin hf. for the period 1 January to 31 March have been prepared in accordance with International Financial Reporting Standard (IFRS) for Interim Financial Statements (IAS 34). The Condensed Consolidated Interim Financial Statements comprise the Consolidated Interim Financial Statements of Tryggingamiðstöðin hf., Trygging hf., TM fé ehf., Líftryggingamiðstöðin hf. and Íslensk Endurtrygging hf.

The Condensed Consolidated Interim Financial Statements for the three month period ended 31 March 2018 have not been audited nor reviewed by our external auditor.

According to the Condensed Consolidated Interim Income Statement, profit after tax for the period amounted to ISK 289 million. The Group's equity at 31 March amounted to ISK 12,892 million according to the Condensed Consolidated Balance sheet.

The Company's share capital is at 31 March divided between 903 shareholders, compared to 899 at the beginning of the year.

Statement by the Board of Directors and the CEO

According to the best of our knowledge, the Condensed Consolidated Interim Financial Statements of Tryggingamiðstöðin hf. give a true and fair view of the consolidated financial performance of the Group for the three months period ended 31 March 2018, its assets, liabilities and consolidated financial position at 31 March 2018 and its consolidated cash flow for the three month period ended 31 March 2018.

Further, in our opinion the Condensed Consolidated Interim 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.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statement of Tryggingamiðstöðin hf. for the three month period ended 31 March 2018 and confirm them by means of their signatures.

Reykjavík, 8 May 2018

Board of Directors:

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

CEO:

Sigurður Viðarsson

Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income

	Notes	2018 1.1.-31.3	2017 1.1.-31.3
Premiums earned		3,945,887	3,605,445
Outward reinsurance premiums		(159,276)	(131,498)
Earned premiums, net of reinsurance	4	<u>3,786,611</u>	<u>3,473,948</u>
Finance income		737,608	1,324,998
Finance income from investment properties		0	1,342
Other income		7,795	12,218
Total income		<u>4,532,014</u>	<u>4,812,506</u>
Claims incurred		(3,488,372)	(2,852,713)
Claims incurred, reinsurers' share		194,733	387
Claims incurred, net of reinsurance	5	<u>(3,293,639)</u>	<u>(2,852,326)</u>
Operating expenses		(975,907)	(965,755)
Interest expenses		(50,121)	(35,104)
Impairment		48,849	22,861
Total expenses		<u>(4,270,818)</u>	<u>(3,830,324)</u>
Profit before income tax		261,196	982,182
Income tax	6	<u>27,956</u>	<u>(15,910)</u>
Profit and Comprehensive Income for the period		289,152	966,272
Attributable to:			
Equity holders of the parent		289,153	966,270
Minority interest		(1)	2
		<u>289,152</u>	<u>966,272</u>
Earnings per share:			
Basic and diluted earnings per share		0.43	1.42

The notes on pages 8 to 15 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Balance Sheet

	Notes	31.3.2018	31.12.2017
Assets			
Operating assets		331,904	342,615
Investment properties		48,171	48,171
Goodwill and other intangible assets		366,512	313,151
Restricted cash		6,821	6,743
Loans		1,125,505	1,299,709
Securities	7	26,087,834	26,290,067
Investment where investment risk is borne by life-insurance policyholders		36,171	27,903
Deferred tax asset	8	109,001	81,046
Assets classified as held for sale		16,131	9,540
Reinsurance assets	9	946,409	498,028
Trade receivables		8,644,562	4,611,990
Cash and cash equivalents		953,519	1,129,841
Total assets		38,672,540	34,658,804
Equity			
Share capital	10	678,143	678,143
Share premium		425,516	425,516
Reserves		270,710	270,710
Restricted reserves		4,313,879	4,640,460
Retained earnings		7,203,281	8,087,546
Shareholders equity		12,891,529	14,102,375
Minority interest		25	26
Total equity		12,891,554	14,102,401
Liabilities			
Technical provision	11	22,176,686	17,191,363
Technical provision for life-insurance policies where investment risk is borne by the policyholders		36,171	27,903
Liabilities in connection with investment properties		25,915	25,803
Trade and other payables		1,386,259	1,201,702
Subordinated debt	12	2,155,955	2,109,632
Total liabilities		25,780,986	20,556,403
Total equity and liabilities		38,672,540	34,658,804

The notes on pages 8 to 15 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

	Shareholders							Total equity
	Share Capital	Share premium	Reserves	Restricted reserves	Retained earnings	Total	Minority interest	
1 January - 31 March 2018								
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					289,153	289,153	(1)	289,152
Restricted reserve				(326,581)	326,581			
Shareholders								
Paid out dividends					(1,500,000)	(1,500,000)		(1,500,000)
	0	0	0	0	(1,500,000)	(1,500,000)	0	(1,500,000)
Equity 31.3.2018	678,143	425,516	270,710	4,313,879	7,203,281	12,891,529	25	12,891,554
1 January - 31 March 2017								
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					966,270	966,270	2	966,272
Restricted reserve				440,373	(440,373)			
Shareholders								
Paid out dividends					(1,500,000)	(1,500,000)		(1,500,000)
	0	0	0	0	(1,500,000)	(1,500,000)	0	(1,500,000)
Eigið fé 31.3.2017	678,143	425,516	270,710	2,679,205	7,892,015	11,945,589	30	11,945,619

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 Condensed Consolidated Interim Financial Statements of TM hf. for the three month period ended 31 March 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 8 to 15 are an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Cash Flows

	2018	2017
	1.1.-31.3	1.1.-31.3
Net cash from operating activities		
Premiums, received	4,454,724	3,825,663
Claims, paid	(3,150,636)	(2,994,347)
Operating cost, paid	(796,487)	(749,605)
Net cash from insurance activities	<u>507,601</u>	<u>81,711</u>
Finance income, received	82,326	88,826
Finance expense, paid	(3,279)	(1,954)
Investment income, received	373,961	163,564
Finance income from investment properties, received	310	1,104
Operating cost, paid	(108,612)	(105,620)
Net cash from investments activities	<u>344,706</u>	<u>145,920</u>
Income tax paid	(91,168)	(81,691)
Net cash from operating activities	<u>761,139</u>	<u>145,940</u>
Investing activities		
Securities, change	290,803	2,453,182
Restricted cash, change	(78)	183,160
Loans, change	184,568	2,623
Investment properties, change	50,324	8,729
Operating assets, additions	(4,026)	(446)
Operating assets, sales	0	5,500
Intangible assets, additions	(60,023)	(24,908)
Net cash flow used in investing activities	<u>461,568</u>	<u>2,627,840</u>
Financing activities		
Dividend paid to shareholders	(1,372,820)	(1,412,222)
Borrowing, change	(26,209)	(40)
Net cash flow used in financing activities	<u>(1,399,029)</u>	<u>(1,412,262)</u>
(Decrease) increase in cash and cash equivalents	(176,322)	1,361,518
Cash and cash equivalents at the beginning of the period	<u>1,129,841</u>	<u>713,026</u>
Cash and cash equivalents at the end of period	<u><u>953,519</u></u>	<u><u>2,074,544</u></u>

The notes on pages 8 to 15 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements

1. Accounting policies

1.1 General information

Tryggingamiðstöðin hf.'s ("The Company") registered office is at Síðumúli 24 in Reykjavík, Iceland. The Condensed Consolidated Interim Financial Statements of Tryggingamiðstöðin hf. as at and for the three month period ended 31 March 2018 comprise the company and its subsidiaries, together referred to as the "Group". List of the subsidiaries is included in note 3. Tryggingamiðstöðin's main operation is non-life insurance, life insurance and financial operation.

These Condensed Consolidated Interim Financial statements were approved by the Board of Directors of Tryggingamiðstöðin hf. on 8 May 2018.

1.2 Basis of preparation

These Condensed Consolidated Interim Financial Statements of the Company and its subsidiaries are for the three month period ended 31 March 2018 and have been prepared in accordance with IAS 34 as adopted by the European Union. The Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group's Annual Consolidated Financial Statements for the year ended 31 December 2017.

1.3 Accounting policies

The accounting policies adopted are consistent with those of the Annual Consolidated Financial Statements, as described in the Annual Consolidated Financial Statements for the year ended 31 December 2017. The Consolidated Financial Statements for the Group for the period ended 31 December 2017 are available upon request from the Company's registered office at Síðumúla 24, Reykjavík, Iceland or at www.tm.is.

The Condensed Consolidated Interim 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. The Condensed Consolidated Interim Financial Statements are prepared on the historical cost basis except for securities and investment properties, which are measured at fair value.

1.4 Use of estimates and judgements

The preparation of the Condensed Consolidated Interim 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.

Notes to the Condensed Consolidated Interim Financial Statements

2. Segment reporting

Operating segment 1.1. - 31.3. 2018	Non-Life insurance	Life insurance	Financial operation	Group
Earned premiums, net of reinsurance	3,676,520	110,091		3,786,611
Finance income	254,033	3,401	480,174	737,608
Other income			7,795	7,795
Total income	<u>3,930,554</u>	<u>113,491</u>	<u>487,969</u>	<u>4,532,014</u>
Claims incurred, net of reinsurance	(3,281,764)	(11,875)		(3,293,639)
Operating expenses	(841,992)	(21,928)	(111,987)	(975,907)
Interest expenses			(50,121)	(50,121)
Impairment			48,849	48,849
Total expenses	<u>(4,123,756)</u>	<u>(33,802)</u>	<u>(113,259)</u>	<u>(4,270,818)</u>
Operating profit of segment	(193,203)	79,689	374,711	261,196
Income tax				<u>27,956</u>
Profit for the period				<u><u>289,152</u></u>

Operating segment 1.1. - 31.3. 2017	Non-Life insurance	Life insurance	Financial operation	Group
Earned premiums, net of reinsurance	3,363,723	110,225		3,473,948
Finance income	149,961	1,258	1,173,778	1,324,998
Investment asset income			1,342	1,342
Other income			12,218	12,218
Total income	<u>3,513,684</u>	<u>111,483</u>	<u>1,187,339</u>	<u>4,812,506</u>
Claims incurred, net of reinsurance	(2,827,180)	(25,146)		(2,852,326)
Operating expenses	(819,794)	(26,679)	(119,282)	(965,755)
Interest expenses			(35,104)	(35,104)
Impairment			22,861	22,861
Total expenses	<u>(3,646,974)</u>	<u>(51,825)</u>	<u>(131,525)</u>	<u>(3,830,324)</u>
Operating profit of segment	(133,289)	59,657	1,055,814	982,182
Income tax				<u>(15,910)</u>
Profit for the period				<u><u>966,272</u></u>

Notes to the Condensed Consolidated Interim Financial Statements

3. Group entities

Group's subsidiary at 31 March 2018 are following:

	Share
Íslensk endurtrygging hf., Iceland	99.96%
Líftryggingamiðstöðin hf., Iceland	100.00%
TM fé ehf., Iceland	100.00%
Trygging hf., Iceland	100.00%

4. Earned premiums, net of reinsurance

	2018 1.1.-31.3.	2017 1.1.-31.3.
Premiums written.....	8,706,723	8,203,167
Change in the gross provision for unearned premiums.....	(4,760,836)	(4,597,722)
Earned premiums.....	<u>3,945,887</u>	<u>3,605,445</u>
Reinsurer's share.....	(438,457)	(414,660)
Change in the provision for unearned premiums, reinsurer's share.....	279,181	283,162
Outward reinsurance premiums.....	<u>(159,276)</u>	<u>(131,498)</u>
Earned premiums, net of reinsurance.....	<u>3,786,611</u>	<u>3,473,948</u>

5. Claims incurred, net of reinsurance

	2018 1.1.-31.3.	2017 1.1.-31.3.
Claims paid.....	(3,263,886)	(3,309,808)
Change in the provision for claims.....	(224,486)	457,095
Claims incurred.....	<u>(3,488,372)</u>	<u>(2,852,713)</u>
Claims paid, reinsurer's share.....	25,533	269,803
Change in the provision for claims, reinsurer's share.....	169,200	(269,416)
Claims incurred, reinsurers' share.....	<u>194,733</u>	<u>387</u>
Claims incurred, net of reinsurance.....	<u>(3,293,639)</u>	<u>(2,852,326)</u>

6. Income tax and financial activity tax

	2018 1.1.-31.3.	2017 1.1.-31.3.
Income tax recognised in the income statement is specified as follows:		
Current tax payable.....	0	10,401
Deferred tax.....	(27,956)	5,509
	<u>(27,956)</u>	<u>15,910</u>

	2018 1.1.-31.3.		2017 1.1.-31.3.	
Effective tax rate:				
Profit before income tax		261,196		982,182
Income tax using Icelandic corporation tax rate	20.0%	52,239	20.0%	196,436
Tax exempt revenue	(30.7%)	(80,195)	(18.4%)	(180,526)
Effective tax rate	(10.7%)	<u>(27,956)</u>	1.6%	<u>15,910</u>

Notes to the Condensed Consolidated Interim Financial Statements

7. Securities

Securities on 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.

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.

Fair value as at 31 March 2018	Level 1	Level 2	Level 3	Total
State guaranteed securities				
State guaranteed securities	3,864,849	2,654		3,867,502
State guaranteed securities funds	361,424			361,424
Bonds				
Asset guaranteed bonds	5,015,267	835,238		5,850,505
Other bonds	225,710	1,135,385		1,361,095
Shares				
Listed shares	1,657,263			1,657,263
Unlisted shares		2,922,235	4,919,342	7,841,577
Share certificates				
Debt securities funds	561,377	1,063,654		1,625,031
Other securities				
Other securities	1,447,365	1,925,200	150,871	3,523,437
Total securities	13,133,257	7,884,365	5,070,213	26,087,834

Notes to the Condensed Consolidated Interim Financial Statements

7. Securities cont.

Fair value as at 31 December 2017	Level 1	Level 2	Level 3	Total
State guaranteed securities				
State guaranteed securities	4,823,404	2,650		4,826,054
State guaranteed securities funds	358,729			358,729
Bonds				
Asset guaranteed bonds	3,226,594	1,004,729		4,231,323
Other bonds	235,085	1,106,221		1,341,306
Shares				
Listed shares	2,610,796			2,610,796
Unlisted shares		2,837,556	4,758,875	7,596,431
Share certificates				
Debt securities funds	553,600	1,037,475		1,591,075
Other securities				
Other securities	1,656,101	1,925,131	153,121	3,734,353
Total securities	<u>13,464,309</u>	<u>7,913,762</u>	<u>4,911,996</u>	<u>26,290,067</u>

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

Change in assets classified as level 3:

Balance 1.1.	4,911,996
Purchased	0
Sales/dividends/repayments	(7,828)
Interest and changes in valuation*	166,045
Balance 31.3.....	<u>5,070,213</u>

* Of which there are ISK 166 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 31.3.2018	Assumption	Range	Impact on fair value, sensitivity analysis
Unlisted shares	4,919,342	EBITDA growth	3.3%-3.4%	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	10.5%-13.0%	5% decrease in value of properties 1 and 2.5% decrease in EBITDA growth and 2.5% increase in required return on equity on properties 2 decreases the value of assets of ISK 517 million. 5% increase in value of properties 1 and 2.5% increase in EBITDA growth and 2.5% decrease in required return on equity on properties 2 increases the value of assets of ISK 657 million.

Notes to the Condensed Consolidated Interim Financial Statements

8. Deferred tax asset

	31.3.2018	31.12.2017
Deferred income tax asset 1.1.	81,046	93,559
Income tax for the period	27,956	(83,866)
Difference between estimated and actual taxes last year	0	(132,929)
Income tax payable	0	204,281
	<u>109,001</u>	<u>81,046</u>

9. Reinsurance assets

	31.3.2018	31.12.2017
Premium reserve, reinsurer's share	352,972	73,791
Claims outstanding, reinsurer's share	593,437	424,237
	<u>946,409</u>	<u>498,028</u>

10. Share Capital

Total share capital, approved and issued by the Company at 31 March 2018, amounted to 678.1 million shares; with a par value of 1 ISK per share.

11. Technical provisions and reinsurance assets

	31.3.2018	31.12.2017
Technical provisions (total):		
Claims outstanding	12,864,389	12,639,902
Provision for unearned premiums	9,312,297	4,551,461
	<u>22,176,686</u>	<u>17,191,363</u>
Reinsurance assets:		
Reinsurer's share:		
Claims outstanding	593,437	424,237
Provision for unearned premiums	352,972	73,791
	<u>946,409</u>	<u>498,028</u>
Own technical provision:		
Claims outstanding	12,270,952	12,215,665
Provision for unearned premiums	8,959,325	4,477,670
	<u>21,230,277</u>	<u>16,693,335</u>

12. Subordinated debt

In the year 2015 TM issued subordinated bond for amount ISK 2,000 million. The subordinated debt is indexed and part of TM's solvency. The subordinated debt is for 30 years, indexed linked with fixed 5,25% interest, with permission to pay earlier and step increase for interest to 6,25% after 10 years.

Notes to the Condensed Consolidated Interim Financial Statements

13. Related parties

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

	1.1. - 31.3. 2018		31.3.2018	
	Income	Expenses	Assets	Liabilities
Board, key personnel and related companies	2,363	2,801	1,911	75
	1.1. - 31.3. 2017		31.12.2017	
	Income	Expenses	Assets	Liabilities
Board, key personnel and related companies	1,996	1,270	2,613	60

14. Financial Ratios

The Group's principal financial ratios:	2018	2017
	1.1.-31.3.	1.1.-31.3.
Net claims ratio	87.0%	82.1%
Net cost ratio	22.8%	24.4%
Net combined ratio (claims + cost)	109.8%	106.5%
Return on equity (annualized)	9.0%	36.2%
	31.3.2018	31.12.2017
Equity ratio	33.3%	40.7%

Notes to the Condensed Consolidated Interim Financial Statements, cont.:

Quarterly results

15. Quarterly results are following:

	Q 1 2018	Q 4 2017	Q 3 2017	Q 2 2017	Q 1 2017
Premiums earned	3,945,887	3,857,978	4,221,666	3,930,455	3,605,445
Outward reinsurance premiums	(159,276)	(150,857)	(172,227)	(176,181)	(131,498)
Earned premiums, net of reinsurance	3,786,611	3,707,121	4,049,439	3,754,274	3,473,947
Finance income	737,608	1,099,998	39,513	1,253,497	1,324,998
Finance income from investment properties	0	14,976	1,357	14,147	1,342
Other income	7,795	5,313	8,011	11,337	12,218
Total income	4,532,014	4,827,408	4,098,320	5,033,255	4,812,505
Claims incurred	(3,488,372)	(2,820,469)	(3,192,306)	(3,340,172)	(2,852,713)
Claims incurred, reinsurers' share	194,733	63,878	155,394	113,479	387
Claims incurred, net of reinsurance	(3,293,639)	(2,756,591)	(3,036,912)	(3,226,693)	(2,852,326)
Operating expenses	(975,907)	(835,503)	(771,466)	(831,850)	(965,755)
Interest expense	(50,121)	(44,206)	(34,230)	(47,997)	(35,104)
Impairment	48,849	(121,437)	(1,856)	(25,504)	22,861
Total expenses	(4,270,818)	(3,757,737)	(3,844,464)	(4,132,044)	(3,830,324)
Profit before income tax	261,196	1,069,671	253,854	901,212	982,182
Income tax	27,956	(38,928)	(36,877)	7,849	(15,910)
Profit and Comprehensive Income for the period	289,152	1,030,743	216,977	909,061	966,272
Attributable to:					
Equity holders of the parent	289,153	1,030,744	216,977	909,064	966,270
Minority interest	(1)	(1)	0	(3)	2
Profit and Comprehensive Income for the period	289,152	1,030,743	216,977	909,061	966,272