

Annual Report  
2014



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

# Key figures

|   | 2014          | 2013          | 2012          | 2011          | 2010          |
|---|---------------|---------------|---------------|---------------|---------------|
| Premiums written                            | 16.108        | 16.074        | 16.105        | 15.480        | 14.986        |
| Premiums earned                             | 16.023        | 16.090        | 16.460        | 15.560        | 14.873        |
| Investment income from insurance operations | 1.186         | 1.176         | 1.112         | 924           | 1.135         |
| Other income from insurance operations      | 163           | 155           | 132           | 116           | 98            |
| Claims incurred                             | -12.297       | -12.667       | -12.113       | -12.772       | -11.977       |
| Operating expenses                          | -3.419        | -3.436        | -3.550        | -3.245        | -2.912        |
| Reinsurance expenses                        | -425          | 362           | -544          | -488          | -398          |
| <b>Profit from insurance operations</b>     | <b>1.232</b>  | <b>1.679</b>  | <b>1.497</b>  | <b>95</b>     | <b>819</b>    |
| Profit (loss) from financial operations     | 721           | 876           | 2.185         | 524           | -507          |
| Taxes                                       | -244          | -402          | -950          | -208          | -108          |
| Profit (loss) after taxes                   | 1.710         | 2.154         | 2.732         | 411           | 204           |
| Profit from discontinued operations         |               |               | 293           | -3            |               |
| <b>Net results</b>                          | <b>1.710</b>  | <b>2.154</b>  | <b>3.025</b>  | <b>408</b>    | <b>204</b>    |
| Equity                                      | 15.956        | 16.624        | 14.470        | 11.584        | 11.146        |
| Technical provision                         | 27.577        | 27.083        | 26.204        | 24.792        | 22.615        |
| Other liabilities                           | 2.933         | 2.547         | 2.778         | 1.814         | 1.338         |
| <b>Equity and liabilities total</b>         | <b>46.466</b> | <b>46.254</b> | <b>43.452</b> | <b>38.190</b> | <b>35.099</b> |
| Claims ratio                                | 76,7%         | 78,7%         | 73,6%         | 82,1%         | 80,5%         |
| Net claims ratio                            | 78,6%         | 75,5%         | 75,6%         | 83,0%         | 80,3%         |
| Cost ratio                                  | 21,4%         | 21,4%         | 21,6%         | 20,8%         | 19,6%         |
| Reinsurance cost ratio                      | 2,6%          | -2,3%         | 3,3%          | 3,1%          | 2,7%          |
| Combined ratio                              | 100,7%        | 97,8%         | 98,5%         | 106,0%        | 102,8%        |
| Investment income and other income ratio    | 7,4%          | 8,3%          | 7,6%          | 6,6%          | 8,3%          |
| Operating ratio                             | 92,9%         | 90,4%         | 91,5%         | 99,4%         | 94,9%         |
| Own technical provision/Retained premiums   | 135,0%        | 132,2%        | 128,1%        | 125,7%        | 117,0%        |
| Equity ratio                                | 34,3%         | 35,9%         | 33,3%         | 30,3%         | 31,8%         |
| Return on equity                            | 10,5%         | 13,9%         | 23,2%         | 3,6%          | 1,8%          |
| Equity                                      | 15.956        | 16.624        | 14.470        | 11.584        | 11.146        |
| Group solvency                              | 11.391        | 13.801        | 13.466        | 10.712        | 9.819         |
| Group minimum solvency                      | 3.665         | 3.707         | 3.569         | 3.058         | 2.908         |
| Group solvency ratio                        | 3,1           | 3,7           | 3,8           | 3,5           | 3,4           |
| Solvency ratio parent company               | 4,0           | 4,8           | 4,9           | 3,8           | 3,8           |

Amounts in million ISK

Friðrik Hallbjörn Karlsson Chairman of the Board  
and Sigrún Ragna Ólafsdóttir CEO



## Joint Statement by the Chairman of the Board and CEO

Insurance companies serve an important function in communities, one that involves great responsibilities. In this connection, VÍS is a reliable, leading and progressive-thinking service company, and we will continue to move forward as a benchmark insurance company. We have been systematically working towards this goal since 2012 with the strategy of increasing customer satisfaction and loyalty through simplicity. This is achieved by refocusing emphasis, modifying procedures, implementing new systems and removing others, all with the aim of improving operational efficiency and services while lowering costs.

### Performance and operations

VÍS's operations were satisfactory for the year. Profit after taxes amounted to ISK 1.710 million, while return on equity was 10,5%. The year can be characterised on the one hand by additional heavy claims, particularly in property and motor insurance, and on the other hand by yield fluctuations in the debenture and stock markets. The company's goal that the combined ratio be under 100% was not achieved, instead it was 100,7%. Although major claims increased somewhat, it is gratifying that performance of all insurance sectors was positive. The company's emphasis on simplicity and greater efficiency has led to lower operational costs for the year.

The year did not begin well for investment activities as both the debenture and stock markets had only minor growth. Investment opportunities did increase over the year, which is reflected in a more diverse asset portfolio. Annual yield was an excellent 7,1%. There was little yield from indexed debentures, while performance of non-indexed debentures was acceptable. The stock market showed improvement as the year progressed, with resulting yields being quite acceptable.

The competitive environment was demanding as usual, with stagnation or minor reductions in premiums in property and casualty insurance, but growth in the life insurance sector. The financial statements did not increase much, but VÍS remains Iceland's largest insurance company. It is financially strong with a solvency ratio of 3,11 according to current regulations, but 1,64 according to impending regulations. Moreover, the company continues to maintain strength in claims outstanding. At year-end 2014, outstanding claims above prudent valuation, was ISK 3.600 million including tax consideration, a position that can be included in solvency in accordance with upcoming legislation.

### Streamlined strategy

VÍS's strategy is reviewed and refined annually with the participation of all employees. Results achieved during the year and changes in the company's markets are evaluated, and an activity plan for the upcoming year is drafted. Our slogan, Where insurance is about people, is intended to improve operations with a view to not only fulfilling customer expectations, but of surpassing them. In this regard, all contact with customers has been mapped and assessed for importance. We can then respond in accordance with customer expectations, and improve wherever necessary. Our goal is to have the most satisfied and loyal customers on the insurance market.

Over the past two years work has progressed on implementing LEAN management principles. LEAN is an ongoing method for improving operations. During the year, work concluded on implementing LEAN into three departments, with another three now going through the same process. Advantages of this method were immediately quantified and in line with goals. We intend to be a leader in E-services and anticipate that the number of

customers choosing self-service will increase rapidly. VÍS was the first insurance company to implement E-identification, and in 2015 a new website will go online that supports advances in this area. Moreover, VÍS's rating in the Icelandic Satisfaction Index has risen somewhat year-on-year, which shows that we are on the right path.

### Investment in the future

The decision was taken during the year to invest in a standardised insurance system from Danish software company TIA Technology. This solution has proved itself with over 100,000 users in more than 60 countries. The system, which increases operational efficiency, will be implemented after mid-2015. Services will be more automated and all procedures will be faster and better, which is expected to increase customer satisfaction.

Considerable work has gone into ensuring that risk assessment reflects correct pricing of our services and products. This work also has an impact on product development in keeping with market needs. At the same time as the TIA software is put into operation a new pricing model will also be implemented that will include more risk factors.

### New legislation - Solvency II

The company has been working on implementing upcoming legislation concerning insurance companies, Solvency II, which takes effect on 1 January 2016. The legislation makes increased demands on insurance companies regarding risk assessment and management, significant changes to how risk in operations of insurance companies is measured, and how solvency and notional solvency requirements are decided. We are pleased with the new legislation as it provides opportunities to improve risk assessment and company operations even further.

Simultaneous to the implementation of Solvency II, the company is establishing new goals regarding notional solvency, solvency and dividend strategy. Results of this work will be introduced when concluded and all necessary information concerning the new legislation is available.

### Strong infrastructure

We are proud that VÍS was the first insurance company to be acknowledged as a Role Model Company by the Center of Corporate Governance at the University of Iceland. The quality of the company's corporate governance is confirmed annually by an objective outside source, and this acknowledgement was recently renewed. In line with this is the company's aim to increase credibility and transparency towards stakeholders and other interested parties. The company's full corporate governance statement is located before the financial statements in the annual report.

VÍS's new organisation chart, which was implemented in February 2014, has proved effective. There are now much sharper areas of responsibility within individual management departments. In accordance with our goal of simplification and efficiency, full-time equivalent units have been reduced by about 17% over the past four years, from 234 in 2011 to 195 now. The reduction is

primarily the result of not replacing those who have left. We are proud of the cohesive, satisfied and ambitious employees that form the foundation of a strong company. This group has proved itself worthy in handling demanding projects during the year, for example implementing LEAN and work involving TIA. Overall, the sex ratio is about equal. Three of the seven senior managers are women, 40% of department heads are women, and 60% of board directors are women.

VÍS takes its social responsibility seriously. This is underscored by VÍS becoming a member of Festa - Icelandic Center for Corporate Social Responsibility during the year. This is apparent in all of our activities and is detailed in the annual report.

### Financial strength

VÍS's market value at year-end amounted to ISK 22.652 million. Stakeholders were 1.100. Klakki ehf., which was the largest individual shareholder for many years, sold its shares that were equal to just over 30% of the company, in two transactions in October.

At the 2014 annual general meeting the decision was taken to pay a dividend amounting to 0,73% per share, for a total of ISK 1.831 million. This was done in accordance with the company's dividend strategy. The company board view the surrender value of shares as a good method of transferring assets to stakeholders. During the year a total of 64 million shares had been bought for about ISK 547 million. The company thereby owned about 2,6% of itself at year-end 2014.

A proposal will be presented at the annual general meeting to reduce the total number of company shares to equal the amount of surrender value at year-end. Purchase of own shares has continued in 2015 and will conclude in accordance with the board's surrender value plan no later than on the day of the annual general meeting. Furthermore, the board proposes that stakeholders shall be paid a dividend totalling ISK 2.500 million for 2014, or ISK 1,03 per share.

On 27 February 2015, an agreement was concluded between VÍS and SPRON savings bank to end the lawsuit that SPRON's Winding-up Board had brought against the company, which is described in Note 28 in the financial statements. With the agreement both parties consented that neither had any further claims on the other in any form whatsoever. No costs landed on VÍS due to the agreement except for legal costs. As a result of the agreement, VÍS rescinded Klakki's indemnity promise and bank guarantee.

This annual general report provides a good overview of VÍS's operations in 2014. It illustrates the company's strength, diverse operations, and our values. We will continue along the same lines with emphasis on simplicity and efficiency with the aim of increasing customer loyalty and satisfaction. This brings returns in better operations for the benefit of customers, employees and shareholders, and makes VÍS an even better investment choice. In this respect employees and the company board have played a key role, and they thoroughly deserve our thanks for their outstanding work.





# Financial Statements 2014

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

The consolidated financial statements of Vátryggingafélag Íslands hf. (“the Company” or “VÍS”) for the year 2014 is prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Company’s main operations consist of insurance and investment activities. The consolidated financial statements consist of the financial statements of the Company and its subsidiary, Líftryggingafélag Íslands hf., together referred to as “the Group”.

## Operations

According to the statement of profit or loss and other comprehensive income the Group’s profit for the year 2014 amounted to ISK 1,710 million (2013: ISK 2,154 million). The Group’s assets at year end amounted to ISK 46,466 million (2013: ISK 46,368 million) and equity amounted to ISK 15,956 million (2013: ISK 16,624 million) according to the balance sheet. Average number of employees in 2014 was 195 (2013: 210).

## Share capital and articles of association

Listed share capital of the Company was ISK 2,502 million at year end. Each share is in the nominal amount of ISK 1 krona. Shares are in one class which is all listed in OMX Nordic Exchange. All shares are in one class and carry equal rights.

The Company bought treasury shares in the year 2014 according to the share repurchase program. On 13 May 2014 the prior share repurchase program was started but according to it 55 million shares were bought for ISK 463 million. The plan was completed on 21 November 2014. On 28 November 2014 a new share repurchase program to buy up to 55 million shares more for a maximum price of ISK 500 million was announced. In the year 2014 the Company bought 64 million shares for ISK 547 million. Now the Company has bought 73 million shares for ISK 631 million and today the company holds 2.93% of its shares. The share repurchase program will be completed at the annual general meeting day in 2015.

Shareholders were 1,303 at year end 2013 and 1,067 at year end 2014

Tíu stærstu hluthafar í árslok voru:

| Name of shareholder                           | Ownership |
|---|-----------|
| Lífeyrissjóður verslunarmanna . . . . .       | 9,9%      |
| Lífeyrissjóður starfsmanna ríkisins . . . . . | 9,7%      |
| Stefnir - ÍS 15 . . . . .                     | 6,8%      |
| Gildi lífeyrissjóður . . . . .                | 6,1%      |
| Hagamelur ehf. . . . .                        | 5,4%      |
| Stapi lífeyrissjóður . . . . .                | 3,7%      |
| Virðing safnreikningur. . . . .               | 3,6%      |
| SNV Holding ehf. . . . .                      | 3,1%      |
| Stefnir - ÍS 5 . . . . .                      | 2,8%      |
| Steinunn Margrét Tómasdóttir. . . . .         | 2,5%      |

At the annual general meeting of the Board of Directors will propose that a dividend of ISK 1.03 per share for the year 2014 will be paid to shareholders. The total amount of the dividend will be approximately ISK 2,500 million. Reference is made to the financial statements regarding changes in equity of the Group and allocation of profit.

## Corporate Governance

Corporate governance of insurance companies is discussed in the Act on Insurance Companies, the Act on Limited Liability Companies, the Company’s Articles of Association and the Rules of Procedure of the Company’s Board of Directors. VÍS has complied with the aforementioned but in addition thereto, the Board of Directors of VÍS believes that the Company’s corporate governance is in accordance with the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Employers, with the exception that a specific nomination committee has not been appointed. In accordance with the aforementioned Guidelines on Corporate Governance and the Icelandic Financial Statements Act, the Company’s Board of Directors has prepared a Statement of Corporate Governance which will be included in the Company’s Annual Report and in an appendix to the financial statements.



## New insurance legislation

The Company is working on adoption of a new insurance legislation, Solvency II, which is coordinated in the European Economic Area and will take effect from 1 January 2016. The legislation implies significant changes on how operation risk for insurance company is measured and how solvency and solvency capital requirement are determined. Solvency capital requirement is risk based valuation on the operation risk of the Company's insurance liability and portfolio of assets. The main changes on how solvency is calculated for Solvency II is that insurance liability exceeding prudent valuation will be included in solvency, net of income tax. This will entail that solvency of the Company will be higher according to Solvency II than according to current regulation. The Company has calculated solvency and solvency capital requirement at year end 2014. Solvency according to Solvency II is ISK 15.0 billion, solvency capital requirement is ISK 9.1 billion and solvency ratio 1.65. Proposed dividend in the year 2015 amounting to ISK 2.5 billion is included in the calculation. The calculation is based on the assumption and information that are on hand for Solvency II.

Parallel to the implementation of the legislation the Company is working on new objectives for solvency capital requirement, solvency and dividend policy. The Company will inform about results of the objectives when it is finished and all necessarily information about Solvency II are on hand.

## Statement by the Board of Directors and the CEO

According to our best knowledge it is our opinion that the consolidated financial statements of Vátryggingafélag Íslands hf. give a true and fair view of the consolidated financial performance of the Group for the year 2014, its assets, liabilities and consolidated financial position as at 31 December 2014. Further, in our opinion the consolidated financial statements and the report and endorsement by the board of directors and the CEO give a fair view of the development and performance of the Group's operations and its position at year end and describe the principal risks faced by the Group. Further information on risk management is included in notes 26.3-26.13 to the financial statements.

The Board of Directors and the CEO of Vátryggingafélag Íslands hf. have today discussed the Company's consolidated financial statements for the year 2014 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements be confirmed at the Company's annual general meeting.

Reykjavík, 26 February 2015

### Í stjórn



Friðrik Hallbjörn Karlsson  
stjórnarformaður



Guðrún Þorgeirsdóttir  
varaformaður



Steinar Þór Guðgeirsson



Helga Jónsdóttir



Ásta Dís Óladóttir

### Forstjóri



Sigrún Ragna Ólafsdóttir



Board of Directors - From left: Friðrik Hallbjörn Karlsson (COB), Helga Jónsdóttir, Guðrún Þorgeirsdóttir, Ásta Dís Óladóttir and Steinar Þór Guðgeirsson.

# Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Vátryggingafélag Íslands hf., which comprise balance sheet as at 31 December 2014, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## The Board of Directors and CEO's Responsibility for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Vátryggingafélag Íslands hf. as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

## Report on the Board of Directors report

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the board of directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

Reykjavík, 26 February 2015

KPMG ehf.



Hlynur Sigurðsson  
endurskoðandi



Sæmundur Valdimarsson  
endurskoðandi

# Statement of profit or loss and other comprehensive income

|  | Skýring  | 2014                | 2013                |
|--|----------|---------------------|---------------------|
| Premiums earned .....                        |          | 16.022.802          | 16.090.039          |
| Premiums earned, reinsurers' share .....     |          | (602.789)           | (642.770)           |
| <b>Premiums earned, net of reinsurance</b>   | <b>7</b> | <b>15.420.013</b>   | <b>15.447.269</b>   |
| Financial income .....                       | 8        | 654.142             | 492.330             |
| Fair value changes of financial assets ..... | 8        | 1.784.816           | 2.138.399           |
| <b>Investment income</b>                     |          | <b>2.438.958</b>    | <b>2.630.729</b>    |
| Other income .....                           |          | 163.429             | 154.782             |
| <b>Total income</b>                          |          | <b>18.022.400</b>   | <b>18.232.781</b>   |
| Claims incurred .....                        |          | (12.296.578)        | (12.667.260)        |
| Claims incurred, reinsurers' share .....     |          | 177.887             | 1.004.633           |
| <b>Claims incurred, net of reinsurance</b>   | <b>9</b> | <b>(12.118.691)</b> | <b>(11.662.627)</b> |
| Operating expenses .....                     | 10       | (3.918.914)         | (3.934.148)         |
| Interest expenses .....                      |          | (2.792)             | (2.420)             |
| Impairment of account receivables .....      | 11       | (28.278)            | (77.808)            |
| <b>Total expenses</b>                        |          | <b>(16.068.675)</b> | <b>(15.677.003)</b> |
| <b>Profit before income tax</b>              |          | <b>1.953.725</b>    | <b>2.555.778</b>    |
| Income tax .....                             | 12       | (243.705)           | (401.732)           |
| <b>Profit for the year</b>                   |          | <b>1.710.020</b>    | <b>2.154.046</b>    |
| <b>Earnings per share:</b>                   |          |                     |                     |
| Basic and diluted earnings per share .....   | 13       | 0,69                | 0,86                |

The notes on pages 18-47 are an integral part of the financial statements.

Consolidated account

Amounts in thousands ISK

# Balance Sheet as at 31 December 2014

| Assets   | Notes | 2014              | 2013              |
|--|-------|-------------------|-------------------|
| Operating assets .....   | 14    | 117.553           | 126.848           |
| Intangible assets .....  | 15    | 2.054.227         | 978.113           |
| Tax asset .....  | 12    | 135.569           | 115.402           |
| Financial assets at fair value through profit or loss .....  | 16    | 28.880.089        | 29.438.641        |
| Financial assets held-to-maturity .....  | 16    | 4.284.837         | 4.288.871         |
| Bonds and other long-term receivables .....  | 16    | 93.145            | 191.067           |
| Investments where investment risk is borne by the life-<br>insurance policyholders .....                         | 17    | 1.284.696         | 1.221.236         |
| Accounts receivable .....  | 18    | 5.283.955         | 4.925.815         |
| Reinsurance assets .....   | 19    | 1.391.781         | 1.426.354         |
| Other receivables .....  | 20    | 1.540.480         | 994.059           |
| Cash and cash equivalents .....  | 21    | 1.399.904         | 2.661.796         |
| <b>Total assets</b>  |       | <b>46.466.237</b> | <b>46.368.201</b> |
| <b>Equity</b>  |       |                   |                   |
| Share capital .....  | 22    | 2.438.481         | 2.502.481         |
| Statutory reserve .....  |       | 625.620           | 625.620           |
| Retained earnings .....  |       | 12.892.382        | 13.496.083        |
| <b>Total equity</b>  |       | <b>15.956.483</b> | <b>16.624.184</b> |
| <b>Liabilities</b>   |       |                   |                   |
| Technical provision .....  | 24    | 27.577.235        | 27.082.870        |
| Technical provision for life-assurance policies where the<br>investment risk is borne by the policyholders ..... | 17    | 1.284.696         | 1.221.236         |
| Accounts payable and other liabilities .....   | 25    | 1.647.823         | 1.439.911         |
| <b>Total liabilities</b>   |       | <b>30.509.754</b> | <b>29.744.017</b> |
| <b>Total equity and liabilities</b>  |       | <b>46.466.237</b> | <b>46.368.201</b> |

The notes on pages 18-47 are an integral part of the financial statements.



# Statement of Changes in Equity for the year 2014

|  | Share<br>capital | Statutory<br>reserve | Retained<br>earnings | Total<br>equity   |
|--|------------------|----------------------|----------------------|-------------------|
| Equity 1.1.2013 .....                    | 2.502.481        | 625.620              | 11.342.037           | 14.470.137        |
| Total comprehensive income .....         | 0                | 0                    | 2.154.046            | 2.154.046         |
| Equity 1.1.2014 .....                    | 2.502.481        | 625.620              | 13.496.083           | 16.624.184        |
| Total comprehensive income .....         | 0                | 0                    | 1.710.020            | 1.710.020         |
| Treasury shares purchased .....          | (64.000)         | 0                    | (482.781)            | (546.781)         |
| Dividends paid, ISK 0.73165 per share .. | 0                | 0                    | (1.830.940)          | (1.830.940)       |
| <b>Equity 31.12.2014</b>                 | <b>2.438.481</b> | <b>625.620</b>       | <b>12.892.382</b>    | <b>15.956.483</b> |

The notes on pages 18-47 are an integral part of the financial statements.

Consolidated account

Amounts in thousands ISK

# Statement of Cash Flows for the year 2014

| Operating activities   | Notes | 2014               | 2013               |
|--|-------|--------------------|--------------------|
| Total comprehensive income for the year .....                            |       | 1.710.020          | 2.154.046          |
| Operating items not affecting cash flows:                                |       |                    |                    |
| Financial income and expenses .....                                      |       | (651.649)          | (489.910)          |
| Fair value changes of financial assets .....                             |       | (1.784.816)        | (2.138.399)        |
| Gain on sale of operating assets .....                                   |       | (10.171)           | 0                  |
| Other obligations .....  |       | 3.969              | 3.515              |
| Depreciation and amortisation .....                                      |       | 113.121            | 140.112            |
| <b>Changes in operating assets and liabilities:</b>                      |       |                    |                    |
| Tax asset, (increase) decrease .....                                     |       | (20.167)           | (74.542)           |
| Financial assets, (increase) .....                                       |       | 1.037.009          | (2.688.257)        |
| Bonds and other receivables, decrease .....                              |       | 97.922             | 61.042             |
| Account receivables, (increase) .....                                    |       | (358.140)          | (11.607)           |
| Reinsurance assets, decrease (increase) .....                            |       | 34.574             | (859.633)          |
| Other assets, (increase) .....   |       | (546.421)          | (80.779)           |
| Technical provision, increase .....                                      |       | 494.364            | 879.268            |
| Accounts payable and other liabilities, increase .....                   |       | 680.215            | 336.315            |
| <b>Cash flows from (to) operating activities before interest and tax</b> |       | <b>799.829</b>     | <b>(2.768.829)</b> |
| Interest income received .....   |       | 1.815.685          | 1.683.310          |
| Dividend received .....  |       | 85.778             | 63.128             |
| Financial expenses paid .....  |       | (2.792)            | (2.420)            |
| Income tax paid .....  |       | (476.274)          | (606.438)          |
| <b>Cash flows from (to) operating activities</b>                         |       | <b>2.222.226</b>   | <b>(1.631.249)</b> |
| <b>Investing activities</b>  |       |                    |                    |
| Acquisition of operating assets .....                                    | 14    | (36.821)           | (5.817)            |
| Sale of operating assets .....   |       | 10.203             | 0                  |
| Purchase of software .....   | 15    | (1.143.151)        | 0                  |
| Changes in financial assets held-to-maturity .....                       |       | 16.485             | 15.898             |
|  |       | <b>(1.153.284)</b> | <b>10.081</b>      |
| <b>Financing activities</b>  |       |                    |                    |
| Purchase of treasury shares .....  |       | (546.781)          | 0                  |
| Dividends paid .....   |       | (1.830.940)        | 0                  |
|  |       | <b>(2.377.721)</b> | <b>0</b>           |
| Decrease in cash and cash equivalents .....                              |       | (1.308.779)        | (1.621.169)        |
| Cash and cash equivalents at the beginning of the year .....             |       | 2.661.796          | 4.318.165          |
| Effect of movements in exchange rates on cash held .....                 |       | 46.887             | (35.200)           |
| <b>Cash and cash equivalents at the end of the year</b>                  |       | <b>1.399.904</b>   | <b>2.661.796</b>   |

The notes on pages 18-47 are an integral part of the financial statements.

Amounts in thousands ISK

Consolidated account

# Notes

## 1. Reporting entity

Vátryggingafélag Íslands hf., hereafter referred to as “the Company”, “the Group” or “VÍS”, is a limited liability company and operates according to law no. 56/2010 on insurance operations and law no 2/1995 on limited liability companies. The Company’s headquarters are at Ármúli 3, Reykjavík.

The consolidated financial statements of Vátryggingafélag Íslands hf. comprise the financial statements of the Company and its subsidiary, Líftryggingafélag Íslands hf. (“Lífís”). The Group’s operations consist of casualty insurance, life insurance and investment activities.

## 2. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements were approved and authorised for issue at a board meeting on 26 February 2015. A summary of significant accounting policies is provided in note 30.

## 3. Functional and presentation currency

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

## 4. Accounting estimates

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

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

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

- technical provision, see note no. 24
- financial assets, see note no. 16 and 26.2
- goodwill, see note no. 15
- impairment of account receivables, see note no. 11

## 5. Changes in presentation

The Group has changed presentation of financial income in the statement of profit or loss and other comprehensive income. The Company’s directors believe it will give truer and fairer view of the operation in whole. Interest income of financial assets at fair value through profit or loss are now part of fair value changes of financial assets, but were previously part of financial income. The changes do not affect the profit of the Group or its equity. Comparative figures have been changed accordingly. Accounts payable and other liabilities have been combined in one line in the balance sheet and related notes have been changed accordingly. Software is included in intangible assets, but was previously part of operating assets. Comparative figures have been changed accordingly.

## 6. Operating segments

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

The operating segments' results for the year 2014 are specified as follows:

|                                    | Casualty<br>insurance | Life<br>insurance | Financial<br>activities | Total             |
|------------------------------------|-----------------------|-------------------|-------------------------|-------------------|
| Premiums earned                    | 15.099.279            | 923.522           | 0                       | 16.022.802        |
| Premiums earned, reinsurers' share | (447.151)             | (155.638)         | 0                       | (602.789)         |
| Investment income                  | 1.148.394             | 37.716            | 1.252.848               | 2.438.958         |
| Other income                       | 163.429               | 0                 | 0                       | 163.429           |
| <b>Total income</b>                | <b>15.963.951</b>     | <b>805.600</b>    | <b>1.252.848</b>        | <b>18.022.400</b> |
| Claims incurred                    | (11.947.905)          | (348.673)         | 0                       | (12.296.578)      |
| Claims incurred, reinsurers' share | 29.660                | 148.227           | 0                       | 177.887           |
| Operating expenses                 | (3.161.703)           | (256.819)         | (500.391)               | (3.918.914)       |
| Interest expenses                  | 0                     | 0                 | (2.792)                 | (2.792)           |
| Impairment of account receivables  | 0                     | 0                 | (28.278)                | (28.278)          |
| <b>Operating segment result</b>    | <b>884.003</b>        | <b>348.335</b>    | <b>721.387</b>          | <b>1.953.725</b>  |
| Income tax                         |                       |                   |                         | (243.705)         |
| Profit for the year                |                       |                   |                         | 1.710.020         |

Depreciation and amortisation in the amount of ISK 55 million and ISK 2 million are included in the operating results of casualty insurance and financial activities, respectively. Investments of the operating segment of casualty insurance amounted to ISK 1,180 million.

Assets and liabilities of the operating segments as at 31 December 2014 are specified as follows:

|   | Casualty<br>insurance | Life<br>insurance | Financial<br>activities | Total             |
|---|-----------------------|-------------------|-------------------------|-------------------|
| <b>Assets</b>   |                       |                   |                         |                   |
| Investment securities   | 30.463.687            | 1.917.159         | 877.225                 | 33.258.071        |
| Investments where investment risk is borne by the lifeinsurance policyholders                           | 0                     | 1.284.696         | 0                       | 1.284.696         |
| Reinsurance assets  | 1.264.138             | 122.792           | 0                       | 1.386.929         |
| Cash and cash equivalents   | 1.261.082             | 138.823           | 0                       | 1.399.904         |
| Other assets  | 3.519.149             | 0                 | 5.617.488               | 9.136.637         |
| <b>Operating segment assets</b>   | <b>36.508.055</b>     | <b>3.463.469</b>  | <b>6.494.713</b>        | <b>46.466.237</b> |
| <b>Liabilities</b>  |                       |                   |                         |                   |
| Technical provision   | 26.865.720            | 711.514           | 0                       | 27.577.234        |
| Technical provision for life-assurance policies where the investment risk is borne by the policyholders | 0                     | 1.284.696         | 0                       | 1.284.696         |
| Other liabilities   | 1.567.375             | 80.449            | 0                       | 1.647.823         |
| <b>Operating segment liabilities</b>  | <b>28.433.095</b>     | <b>2.076.658</b>  | <b>0</b>                | <b>30.509.753</b> |

The operating segments' results for the year 2013 are specified as follows:

|                                    | Casualty<br>insurance | Life<br>insurance | Financial<br>activities | Total             |
|------------------------------------|-----------------------|-------------------|-------------------------|-------------------|
| Premiums earned                    | 15.241.723            | 848.317           | 0                       | 16.090.039        |
| Premiums earned, reinsurers' share | (508.438)             | (134.332)         | 0                       | (642.770)         |
| Investment income                  | 1.140.406             | 35.899            | 1.454.424               | 2.630.729         |
| Other income                       | 154.782               | 0                 | 0                       | 154.782           |
| <b>Total income</b>                | <b>16.028.474</b>     | <b>749.883</b>    | <b>1.454.424</b>        | <b>18.232.781</b> |
| Claims incurred                    | (12.328.016)          | (339.244)         | 0                       | (12.667.260)      |
| Claims incurred, reinsurers' share | 881.817               | 122.816           | 0                       | 1.004.633         |
| Operating expenses                 | (3.193.187)           | (243.056)         | (497.905)               | (3.934.148)       |
| Interest expenses                  | 0                     | 0                 | (2.420)                 | (2.420)           |
| Impairment of receivables          | 0                     | 0                 | (77.808)                | (77.808)          |
| <b>Operating segment result</b>    | <b>1.389.088</b>      | <b>290.399</b>    | <b>876.291</b>          | <b>2.555.778</b>  |
| Income tax .....                   |                       |                   |                         | (401.732)         |
| Profit for the year .....          |                       |                   |                         | 2.154.046         |

Depreciation and amortisation in the amount of ISK 82 million and ISK 2 million are included in the operating results of casualty insurance and financial activities, respectively. Investments of the operating segment of casualty insurance amounted to ISK 6 million.

Assets and liabilities of the operating segments as at 31 December 2013 are specified as follow:

|   | Casualty<br>insurance | Life<br>insurance | Financial<br>activities | Total             |
|---|-----------------------|-------------------|-------------------------|-------------------|
| <b>Assets</b>   |                       |                   |                         |                   |
| Investment securities   | 31.327.283            | 2.039.122         | 552.174                 | 33.918.579        |
| Investments where investment risk is borne by the life insurance policyholders                          | 0                     | 1.221.236         | 0                       | 1.221.236         |
| Reinsurance assets  | 1.269.414             | 151.554           | 0                       | 1.420.967         |
| Cash and cash equivalents   | 2.397.767             | 264.029           | 0                       | 2.661.796         |
| Other assets  | 3.083.069             | 0                 | 4.062.554               | 7.145.623         |
| <b>Operating segment assets</b>   | <b>38.077.532</b>     | <b>3.675.941</b>  | <b>4.614.728</b>        | <b>46.368.201</b> |
| <b>Liabilities</b>  |                       |                   |                         |                   |
| Technical provision   | 26.350.489            | 732.381           | 0                       | 27.082.870        |
| Technical provision for life-assurance policies where the investment risk is borne by the policyholders | 0                     | 1.221.236         | 0                       | 1.221.236         |
| Other liabilities   | 1.362.969             | 76.943            | 0                       | 1.439.911         |
| <b>Operating segment liabilities</b>  | <b>27.713.458</b>     | <b>2.030.560</b>  | <b>0</b>                | <b>29.744.017</b> |



Insurance activities consist of casualty and life insurance, and are specified as follows for the year 2014:

|                       | Property insurance | Marine insurance | Mandatory vehicle insurance | Other vehicle insurance | General liability insurance | Accident and health insurance |
|-----------------------|--------------------|------------------|-----------------------------|-------------------------|-----------------------------|-------------------------------|
| Premiums earned       | 3.749.378          | 413.350          | 5.081.807                   | 2.199.861               | 881.650                     | 1.579.272                     |
| Claims incurred       | (2.552.128)        | (243.078)        | (4.528.712)                 | (1.722.210)             | (745.577)                   | (1.301.905)                   |
| Operating expenses    | (808.580)          | (89.687)         | (1.082.911)                 | (471.657)               | (188.504)                   | (331.806)                     |
| Reinsurance cost, net | (193.098)          | (73.590)         | (15.993)                    | (1.732)                 | (103.163)                   | (28.887)                      |
| Investment income     | 117.658            | 15.728           | 535.642                     | 45.250                  | 160.618                     | 180.004                       |
| Other income          | 64.187             | 2.307            | 96.935                      | 0                       | 0                           | 0                             |
| <b>Profit</b>         | <b>377.417</b>     | <b>25.030</b>    | <b>86.768</b>               | <b>49.512</b>           | <b>5.024</b>                | <b>96.678</b>                 |

|                       | Life-insurance | Health and critical illness insurance | Total direct insurance | Re-insurance   | Total            |
|-----------------------|----------------|---------------------------------------|------------------------|----------------|------------------|
| Premiums earned       | 529.206        | 394.316                               | 14.828.841             | 1.193.961      | 16.022.802       |
| Claims incurred       | (180.869)      | (167.804)                             | (11.442.284)           | (854.293)      | (12.296.578)     |
| Operating expenses    | (149.299)      | (107.520)                             | (3.229.963)            | (188.559)      | (3.418.522)      |
| Reinsurance cost, net | 16.384         | (23.795)                              | (423.874)              | (1.027)        | (424.902)        |
| Investment income     | 18.914         | 18.802                                | 1.092.615              | 93.495         | 1.186.110        |
| Other income          | 0              | 0                                     | 163.429                | 0              | 163.429          |
| <b>Profit</b>         | <b>234.336</b> | <b>113.999</b>                        | <b>988.763</b>         | <b>243.577</b> | <b>1.232.338</b> |

Insurance activities consist of casualty and life insurance, and are specified as follows for the year 2013:

|                       | Property insurance | Marine insurance | Mandatory vehicle insurance | Other vehicle insurance | General liability insurance | Accident and health insurance |
|-----------------------|--------------------|------------------|-----------------------------|-------------------------|-----------------------------|-------------------------------|
| Premiums earned       | 3.927.673          | 500.013          | 5.056.836                   | 2.197.283               | 896.422                     | 1.514.154                     |
| Claims incurred       | (1.941.176)        | (265.670)        | (4.154.698)                 | (1.490.357)             | (1.857.537)                 | (1.687.836)                   |
| Operating expenses    | (846.683)          | (104.913)        | (1.075.037)                 | (468.256)               | (190.415)                   | (321.501)                     |
| Reinsurance cost, net | (285.971)          | (87.602)         | (37.705)                    | (1.365)                 | 830.064                     | (43.177)                      |
| Investment income     | 123.068            | 20.194           | 532.305                     | 45.896                  | 157.890                     | 175.807                       |
| Other income          | 68.368             | 0                | 86.414                      | 0                       | 0                           | 0                             |
| <b>Profit (loss)</b>  | <b>1.045.279</b>   | <b>62.022</b>    | <b>408.114</b>              | <b>283.201</b>          | <b>(163.576)</b>            | <b>(362.553)</b>              |

|                       | Life-insurance | Health and critical illness insurance | Total direct insurance | Re-insurance   | Total            |
|-----------------------|----------------|---------------------------------------|------------------------|----------------|------------------|
| Premiums earned       | 497.946        | 350.371                               | 14.940.698             | 1.149.341      | 16.090.039       |
| Claims incurred       | (121.500)      | (217.744)                             | (11.736.520)           | (930.740)      | (12.667.260)     |
| Operating expenses    | (142.264)      | (100.792)                             | (3.249.862)            | (186.383)      | (3.436.245)      |
| Reinsurance cost, net | (35.009)       | 23.493                                | 362.728                | (864)          | 361.864          |
| Investment income     | 16.157         | 19.742                                | 1.091.059              | 85.247         | 1.176.306        |
| Other income          | 0              | 0                                     | 154.782                | 0              | 154.782          |
| <b>Profit (loss)</b>  | <b>215.329</b> | <b>75.070</b>                         | <b>1.562.886</b>       | <b>116.601</b> | <b>1.679.487</b> |

## 7. Premiums earned, net of reinsurance

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| Premiums written                               | 16.108.462        | 16.074.074        |
| Premiums written, reinsurers' share            | (607.518)         | (652.080)         |
| Change in unearned premiums                    | (85.660)          | 15.965            |
| Change in unearned premiums, reinsurers' share | 4.729             | 9.310             |
| <b>Premiums earned, net of reinsurance</b>     | <b>15.420.013</b> | <b>15.447.269</b> |

## 8. Financial income

|  | 2014           | 2013           |
|--|----------------|----------------|
| Interest income on bank accounts                     | 83.626         | 195.697        |
| Interest income on financial assets held-to-maturity | 154.258        | 261.207        |
| Other interest income                                | 261.678        | 281.441        |
| Foreign currency exchange differences                | 154.580        | (246.014)      |
| <b>Financial income</b>                              | <b>654.142</b> | <b>492.330</b> |

## 9. Claims incurred, net of reinsurance

|   | 2014              | 2013              |
|---|-------------------|-------------------|
| Claims paid                                   | 11.887.874        | 11.772.026        |
| Claims paid, reinsurers' share                | (179.725)         | (186.359)         |
| Change in claims provision                    | 408.704           | 895.233           |
| Change in claims provision, reinsurers' share | 1.838             | (818.274)         |
| <b>Claims incurred, net of reinsurance</b>    | <b>12.118.691</b> | <b>11.662.627</b> |

## 10. Operating expenses

|                                      | 2014             | 2013             |
|--------------------------------------|------------------|------------------|
| Administrative expenses              | 1.826.816        | 1.792.711        |
| Salaries and salary-related expenses | 1.978.804        | 2.001.324        |
| Depreciation and amortisation        | 113.294          | 140.112          |
| <b>Operating expenses</b>            | <b>3.918.914</b> | <b>3.934.148</b> |

### *Salaries and salary-related expenses are specified as follows:*

|  |                  |                  |
|--|------------------|------------------|
| Salaries                                     | 1.572.298        | 1.581.724        |
| Contribution to pension funds                | 158.577          | 153.423          |
| Other salary-related expenses                | 151.406          | 150.119          |
| Special financial activities tax on salaries | 96.523           | 116.057          |
| <b>Salaries and salary-related expenses</b>  | <b>1.978.804</b> | <b>2.001.324</b> |

|   |     |     |
|---|-----|-----|
| Number of employees in full-time equivalent units | 195 | 210 |
|---|-----|-----|

**Salaries, benefits and contribution to pension funds due to the CEO, board members and key management personnel are specified as follows:**

|   | 2014                  |                        | 2013                  |                        |
|---|-----------------------|------------------------|-----------------------|------------------------|
|   | Salaries and benefits | Contrib. to pens. fund | Salaries and benefits | Contrib. to pens. fund |
| Friðrik Hallbjörn Karlsson, chairman of the board of VÍS and board member of Lífis* | 7.150                 | 572                    | 4.750                 | 380                    |
| Guðrún Þorgeirsdóttir, chairman of the board of Lífis and board member of VÍS*      | 5.110                 | 409                    | 800                   | 64                     |
| Helga Jónsdóttir, board member of VÍS and Lífis *                                   | 5.110                 | 409                    | 6.010                 | 480                    |
| Steinar Þór Guðgeirsson, board member of VÍS and Lífis                              | 3.750                 | 300                    | 2.450                 | 196                    |
| Ásta Dís Óladóttir, board member of VÍS and Lífis *                                 | 4.910                 | 393                    | 3.010                 | 240                    |
| Davíð Guðmundsson, board member of Lífis  | 500                   | 40                     | 0                     | 0                      |
| Margrét V. Bjarnadóttir, board member of Lífis                                      | 500                   | 40                     | 0                     | 0                      |
| Vignir Rafn Gíslason, chairman of the audit committee of VÍS and Lífis              | 2.640                 | 211                    | 1.440                 | 116                    |
| Benedikt Jóhannesson, former chairman of the boards of VÍS and Lífis                | 0                     | 0                      | 3.800                 | 380                    |
| Guðmundur Pálsson, former board member of VÍS and Lífis                             | 0                     | 0                      | 225                   | 18                     |
| Ólafur Nilsson, former chairman of the audit committee of VÍS and Lífis             | 0                     | 0                      | 480                   | 0                      |
| Alternative board members of VÍS and Lífis *  | 250                   | 20                     | 1.375                 | 110                    |
| Klakki ehf., due to its employees' board and committee tasks                        | 0                     | 0                      | 9.149                 | 0                      |
| Sigrún Ragna Ólafsdóttir, CEO of VÍS and Lífis                                      | 36.343                | 4.994                  | 37.309                | 5.043                  |
| Directors were six both years   | 121.235               | 14.006                 | 101.689               | 10.880                 |

\* Payments for committee work for audit- and/or pay remuneration committee are included.

Members of the board of directors and management do not receive any other consideration in addition to salaries and benefits.

The number of shares held by board members at year-end: Friðrik Hallbjörn Karlsson 188,962 shares, Guðrún Þorgeirsdóttir 94,340 shares and Helga Jónsdóttir 62,893 shares. Sigrún Ragna Ólafsdóttir held 5,031,447 shares og 6 directors held 802,952 shares in total.

## 11. Impairment of account receivables

|  | 2014          | 2013          |
|--|---------------|---------------|
| Account receivables written off as uncollectible | 73.578        | 106.808       |
| Impairment, change                               | (45.300)      | (29.000)      |
| <b>Impairment of account receivables</b>         | <b>28.278</b> | <b>77.808</b> |

## 12. Income tax

### 12.1 Calculated income tax

Income tax is calculated and recognised in the financial statements.

#### Effective tax rate:

|  | 2014           |              | 2013           |              |
|--|----------------|--------------|----------------|--------------|
|  | Amount         | %            | Amount         | %            |
| Profit before income taxes                                       | 1.953.725      |              | 2.555.778      |              |
| Income tax according to domestic tax rate                        | 390.745        | 20,0%        | 511.156        | 20,0%        |
| Special financial activity tax                                   | 1.377          | 0,1%         | 49.809         | 1,9%         |
| Non-deductible expenses  | 8              | 0,0%         | 8              | 0,0%         |
| Fair value changes of financial assets                           | (148.426)      | -7,6%        | (159.241)      | -6,2%        |
| <b>Income taxes according to the statement of profit or loss</b> | <b>243.705</b> | <b>12,5%</b> | <b>401.732</b> | <b>15,7%</b> |

## 12.2 Deferred tax

Tax asset is specified as follows:

|   | 2014           | 2013           |
|---|----------------|----------------|
| Tax asset at the beginning of the year  | 115.402        | 40.859         |
| Tax expense of the year                 | (243.705)      | (401.732)      |
| Current tax                             | 263.872        | 476.274        |
| <b>Tax asset at the end of the year</b> | <b>135.569</b> | <b>115.402</b> |

*The most significant tax assets is specified as follows:*

|   | 2014           | 2013           |
|---|----------------|----------------|
| Operating assets                        | (9.882)        | (14.706)       |
| Customer relationships                  | (78.885)       | (90.154)       |
| Financial assets                        | 228.545        | 250.505        |
| Other items                             | (4.210)        | (30.243)       |
| <b>Tax asset at the end of the year</b> | <b>135.569</b> | <b>115.402</b> |

## 13. Earnings per share

Earnings per outstanding share is calculated based on the following assumptions:

|  | 2014      | 2013      |
|--|-----------|-----------|
| Profit for the year attributable to shareholders of the Parent Company | 1.710.020 | 2.154.046 |
| Weighted average number of outstanding shares                          | 2.483.258 | 2.502.481 |
| Earnings per share   | 0,69      | 0,86      |

Diluted earnings per share is the same as basic earnings per share since neither share-based payment contracts nor convertible bonds have been issued.

## 14. Operating assets

|                                      | Buildings<br>and<br>land | Computers,<br>other equipment<br>and vehicles | Total          |
|--------------------------------------|--------------------------|---|----------------|
| <b>Cost</b>                          |                          |   |                |
| Balance as at 1.1 2013               | 71.669                   | 614.021                                       | 685.689        |
| Additions during the year            | 0                        | 5.817   | 5.817          |
| Sold and disposed of during the year | 0                        | (8.365)                                       | (8.365)        |
| Reclassification to software         | 0                        | (96.683)                                      | (96.683)       |
| Balance 1.1. 2014                    | 71.669                   | 514.790                                       | 586.459        |
| Additions during the year            | 0                        | 36.821  | 36.821         |
| Sold and disposed of during the year | 0                        | (272.938)                                     | (272.938)      |
| <b>Balance 31.12. 2014</b>           | <b>71.669</b>            | <b>278.673</b>                                | <b>350.341</b> |

#### 14. Operating assets (Contd.)

|                                      | Buildings<br>and<br>land | Computers,<br>other equipment<br>and vehicles | Total          |
|--------------------------------------|--------------------------|---|----------------|
| <b>Depreciation</b>                  |                          |   |                |
| Depreciated 1.1 2013                 | 38.615                   | 389.539                                       | 428.153        |
| Depreciation of the year             | 1.701                    | 82.065  | 83.766         |
| Sold and disposed of during the year | 0                        | (8.365)                                       | (8.365)        |
| Reclassification to software         | 0                        | (43.943)                                      | (43.943)       |
| Depreciated 1.1. 2014                | 40.316                   | 419.296                                       | 459.611        |
| Depreciation of the year             | 1.701                    | 44.383  | 46.084         |
| Sold and disposed of during the year | 0                        | (272.907)                                     | (272.907)      |
| <b>Depreciated 31.12. 2014</b>       | <b>42.017</b>            | <b>190.772</b>                                | <b>232.788</b> |

#### Carrying amount

|   |        |         |         |
|---|--------|---------|---------|
| Carrying amount at beginning of the year 2013 | 33.054 | 224.482 | 257.536 |
| Carrying amount at beginning of the year 2014 | 31.353 | 95.494  | 126.848 |
| Carrying amount at end of the year 2014       | 29.652 | 87.901  | 117.553 |
| Depreciation rates                            | 3%     | 10-33%  |         |

Ratable value of buildings at year end 2014 amounted to ISK 65 million. Asset value for fire insurance of buildings amounted to ISK 175 million at year end 2014. Asset value for fire insurance for operating assets amounted to ISK 438 million at year end 2014

#### 15. Intangible assets

| Cost                                   | Goodwill       | Customer<br>relationship | Software         | Total            |
|--|----------------|--------------------------|------------------|------------------|
| Balance as at 1.1. 2013                | 474.599        | 563.467                  | 0                | 1.038.066        |
| Reclassification from operating assets | 0              | 0                        | 96.683           | 96.683           |
| Balance 1.1. 2014                      | 474.599        | 563.467                  | 96.683           | 1.134.749        |
| Additions during the year              | 0              | 0                        | 1.143.151        | 1.143.151        |
| <b>Balance 31.12. 2014</b>             | <b>474.599</b> | <b>563.467</b>           | <b>1.239.834</b> | <b>2.277.900</b> |

| Amortisation                               | Goodwill | Customer<br>relationship | Software      | Total          |
|--|----------|--------------------------|---------------|----------------|
| Accumulated amortisation 1.1.2013          | 0        | 56.347                   | 0             | 56.347         |
| Amortisation of the year                   | 0        | 56.347                   | 0             | 56.347         |
| Reclassification from operating assets     | 0        | 0                        | 43.943        | 43.943         |
| Accumulated amortisation 1.1.2014          | 0        | 112.694                  | 43.943        | 156.637        |
| Amortisation of the year                   | 0        | 56.347                   | 10.690        | 67.037         |
| <b>Accumulated amortisation 12.31.2014</b> | <b>0</b> | <b>169.041</b>           | <b>54.633</b> | <b>223.674</b> |

| Carrying amount                               | Goodwill | Customer<br>relationship | Software  | Total     |
|---|----------|--------------------------|-----------|-----------|
| Carrying amount at beginning of the year 2013 | 474.599  | 507.121                  | 0         | 981.720   |
| Carrying amount at beginning of the year 2014 | 474.599  | 450.774                  | 52.740    | 978.113   |
| Carrying amount at end of the year 2014       | 474.599  | 394.427                  | 1.185.201 | 2.054.227 |
| Depreciation rates                            | 0%       | 10%                      | 10-33%    |           |

Amounts in thousands ISK

Consolidated account



The Group's goodwill is due to VÍS's acquisition of Lífis in 2012. At year-end an annual impairment test was carried out, based on discounted future cash flows. The most important inputs were that future nominal increase will be 5.7% and required return on equity is 12.7%. The conclusion was that there was no impairment of goodwill.

## 16. Investment securities

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

| <b>Shares in other companies</b>  | <b>2014</b>      | <b>2013</b>      |
|-----------------------------------|------------------|------------------|
| Listed on domestic stock exchange | 2.942.316        | 1.684.015        |
| Listed on foreign stock exchanges | 630.822          | 493.940          |
| Other companies                   | 3.381.239        | 1.577.370        |
|                                   | <b>6.954.377</b> | <b>3.755.326</b> |

### **Other securities**

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| Government securities, indexed     | 7.929.764         | 10.615.483        |
| Government securities, non-indexed | 4.866.048         | 6.009.699         |
| Other bonds                        | 6.098.377         | 5.138.457         |
| Bond funds                         | 537.438           | 1.488.756         |
| Equity funds                       | 693.068           | 652.741           |
| Alternative investment funds       | 1.801.018         | 1.778.180         |
|                                    | <b>21.925.712</b> | <b>25.683.316</b> |

### **Total financial assets at fair value**

**28.880.089 29.438.641**

### **Financial assets held-to-maturity**

|                               |           |           |
|-------------------------------|-----------|-----------|
| Listed government securities* | 4.284.837 | 4.288.871 |
|-------------------------------|-----------|-----------|

**Bonds and other long-term receivables are specified as follows:**

|                                     |               |                |
|-------------------------------------|---------------|----------------|
| Loans pledged by real estate        | 92.386        | 179.543        |
| Loans pledged by movable properties | 255           | 4.993          |
| Other bonds                         | 503           | 6.531          |
|                                     | <b>93.145</b> | <b>191.067</b> |

### **Investment securities**

**33.258.071 33.918.579**

|   |           |           |
|---|-----------|-----------|
| * Estimated fair value of financial assets held-to-maturity | 4.100.148 | 4.165.055 |
|---|-----------|-----------|

## 17. Investments where investment risk is borne by the life-insurance policy holders

Lífis has offered life-insurance policies which consist of life insurance and contribution to investments funds. The cost of the life insurance decreases as the amount in the investment fund increases and ceases by the time the amount in the investment fund exceeds the life-insured amount. Life-insurance policyholders bear the investment risk.

## 18. Account receivables

|  | 2014             | 2013             |
|--|------------------|------------------|
| Receivables due to domestic operations | 3.764.285        | 3.761.357        |
| Receivables due to foreign operations  | 1.508.164        | 1.148.107        |
| Other receivables                      | 11.506           | 16.350           |
| <b>Account receivables</b>             | <b>5.283.955</b> | <b>4.925.815</b> |

### *Changes in allowance of account receivables*

|                                       |                |                |
|---------------------------------------|----------------|----------------|
| Balance at the beginning of the year  | 270.190        | 299.190        |
| Impairment of account receivables     | 28.278         | 77.808         |
| Account receivables written-off       | (73.578)       | (106.808)      |
| <b>Balance at the end of the year</b> | <b>224.890</b> | <b>270.190</b> |

## 19. Reinsurance assets

|  | 2014             | 2013             |
|--|------------------|------------------|
| Reinsurers' share in unearned premiums | 90.963           | 86.234           |
| Reinsurers' share in claims provision  | 1.295.966        | 1.297.805        |
| Claims on reinsurers                   | 4.851            | 42.316           |
| <b>Reinsurance assets</b>              | <b>1.391.781</b> | <b>1.426.354</b> |

## 20. Other receivables

|   | 2014             | 2013           |
|---|------------------|----------------|
| Prepaid taxes                                     | 319.273          | 308.450        |
| Cash in escrow accounts due to foreign operations | 949.752          | 454.356        |
| Restricted cash due to foreign operations         | 254.053          | 204.211        |
| Accrued interest income and prepaid expenses      | 17.403           | 27.042         |
| <b>Other receivables</b>                          | <b>1.540.480</b> | <b>994.059</b> |

## 21. Cash and cash equivalents

Cash and cash equivalents at year-end is specified as follows:

|                                  | 2014             | 2013             |
|----------------------------------|------------------|------------------|
| Cash                             | 1.341            | 2.964            |
| Deposits in Icelandic Krona      | 1.070.022        | 2.303.037        |
| Deposits in foreign currencies   | 328.541          | 355.794          |
| <b>Cash and cash equivalents</b> | <b>1.399.904</b> | <b>2.661.796</b> |

## 22. Share capital

Share capital of Vátryggingafélag Íslands hf. is specified as follows at year end:

|   | 2014             |               | 2013             |               |
|---|------------------|---------------|------------------|---------------|
| Share capital according to the Company's article of association | 2.502.757        | 100,00%       | 2.502.757        | 100,00%       |
| Treasury shares   | (64.277)         | (2,57%)       | (277)            | (0,01%)       |
| <b>Share capital according to the financial statements</b>      | <b>2.438.481</b> | <b>97,43%</b> | <b>2.502.481</b> | <b>99,99%</b> |

## 22. Share capital (Contd.)

One vote is attached to each share of the nominal value of one Icelandic Krona in the Company.

According to the Limited Liability Companies Act the Company is required to retain amounts corresponding to 25% of the nominal value of shares in a statutory reserve that is prohibited to be distributed as dividends to shareholders. Amounts in excess of 25% of the nominal value of shares are at the Company's disposal.

Retained earnings consist of profit and loss of the Company not distributed as dividend or contributed to statutory reserve. Retained earnings can be distributed to shareholders as dividends. However, solvency requirements limit the amounts the Company can pay as dividends.

## 23. Solvency

According to the Act on Insurance Activities, calculated minimum solvency of the Group was ISK 3,665 million at year-end 2014, calculated solvency ISK 11,391 million and solvency ratio 3.11. Calculated minimum solvency for the Group for the year 2013 was ISK 3,707 million, calculated solvency for the Group ISK 13,802 million and solvency ratio 3.72. The difference between the calculated solvency and book value of equity is as follows:

|   | 2014              | 2013              |
|---|-------------------|-------------------|
| <b>Solvency of the Group:</b>                     |                   |                   |
| Equity according to the balance sheet             | 15.956.483        | 16.624.184        |
| Goodwill and other intangible assets              | (2.054.227)       | (978.113)         |
| Intra-group financing                             | (11.506)          | (13.628)          |
| Planned dividend payments                         | (2.500.000)       | (1.830.939)       |
| <b>Calculated solvency</b>                        | <b>11.390.750</b> | <b>13.801.504</b> |
| Calculated minimum solvency of the Group          | 3.665.161         | 3.707.082         |
| Solvency ratio                                    | 3,11              | 3,72              |
| <b>Solvency of the Parent Company:</b>            |                   |                   |
| Calculated solvency of the Parent Company         | 12.421.036        | 14.789.562        |
| Calculated minimum solvency of the Parent Company | 3.096.989         | 3.096.989         |
| <b>Solvency ratio of the Parent Company</b>       | <b>4,01</b>       | <b>4,78</b>       |

## 24. Technical provision

|                                     | 2014              | 2013              |
|-------------------------------------|-------------------|-------------------|
| <b>Technical provision (total):</b> |                   |                   |
| Claims reported                     | 19.173.758        | 18.707.206        |
| Claims incurred but not reported    | 2.944.771         | 3.002.619         |
| Total claims provision              | 22.118.529        | 21.709.825        |
| Unearned premiums                   | 5.458.705         | 5.373.045         |
| <b>Total technical provision</b>    | <b>27.577.234</b> | <b>27.082.870</b> |

## 24. Technical provision (Contd.)

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| <b>Reinsurers' share:</b>                            |                   |                   |
| Claims reported                                      | 1.239.229         | 1.237.527         |
| Claims incurred but not reported                     | 56.737            | 60.278            |
| Claims provision                                     | 1.295.966         | 1.297.805         |
| Unearned premiums                                    | 90.963            | 86.234            |
| <b>Total reinsurers' share</b>                       | <b>1.386.929</b>  | <b>1.384.039</b>  |
| <b>Technical provision, net of reinsurance:</b>      |                   |                   |
| Claims reported                                      | 17.934.529        | 17.469.679        |
| Claims incurred but not reported                     | 2.888.034         | 2.942.341         |
| Claims provision                                     | 20.822.563        | 20.412.020        |
| Unearned premiums                                    | 5.367.742         | 5.286.811         |
| <b>Total technical provision, net of reinsurance</b> | <b>26.190.305</b> | <b>25.698.831</b> |

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 2014 and 2013 is immaterial.

Claims provision represents the Company's estimated amount of both unsettled reported claims as well as claims either unreported or reported inadequately. Unearned premiums represent the Company's estimated amounts of the proportion of the duration of each policy issued that extends into periods beyond the reporting date.

| <b>Claims provision development during the year 2014, claims incurred:</b> | <b>Total</b>      | <b>Reinsurers' share</b> | <b>Own share</b>  |
|--|-------------------|--------------------------|-------------------|
| Paid due to claims incurred during the year                                | 5.302.135         | (121.854)                | 5.180.281         |
| Claims provision due to claims incurred during the year                    | 8.237.012         | (95.257)                 | 8.141.755         |
| Change in estimated claims due to prior years                              | (1.242.570)       | 39.224                   | (1.203.346)       |
| <b>Claims incurred</b>   | <b>12.296.578</b> | <b>(177.887)</b>         | <b>12.118.690</b> |

Change in estimate of claims provision due to prior years was positive by ISK 1,243 million during the year, or 5.5% of the claims provision as of the end of the preceding year. Claims provision, net of reinsurance was positive in the amount of ISK 1,203 million, or 6.7% of the claims provision, net of reinsurance, as of the end of the preceding year.

| <b>Claims paid during the year 2014 are specified as follows:</b> | <b>Total</b>      | <b>Reinsurers' share</b> | <b>Own share</b>  |
|---|-------------------|--------------------------|-------------------|
| Paid due to claims incurred during the year                       | 5.302.135         | (121.854)                | 5.180.281         |
| Paid due to claims incurred in prior years                        | 6.585.739         | (57.872)                 | 6.527.867         |
| <b>Total claims paid</b>  | <b>11.887.874</b> | <b>(179.726)</b>         | <b>11.708.148</b> |

## 24. Technical provision (Contd.)

### Claims provision development during the year 2013, claims incurred:

|   | Total             | Reinsurers' share  | Own share         |
|---|-------------------|--------------------|-------------------|
| Paid due to claims incurred during the year             | 4.747.615         | (92.653)           | 4.654.962         |
| Claims provision due to claims incurred during the year | 7.482.348         | (41.208)           | 7.441.140         |
| Change in estimated claims due to prior years           | 437.296           | (870.772)          | (433.476)         |
| <b>Claims incurred</b>                                  | <b>12.667.260</b> | <b>(1.004.633)</b> | <b>11.662.627</b> |

Change in estimate of claims provision due to prior years was negative by ISK 437 million during the year 2013 or 2.1% of the claims provision as of the end of the preceding year. Claims provision, net of reinsurance was positive by ISK 433 million during the year 2013 or 2.1% of the claims incurred as of the end of the preceding year.

### Claims paid during the year 2013 are specified as follows:

|   | Total             | Reinsurers' share | Own share         |
|---|-------------------|-------------------|-------------------|
| Paid due to claims incurred during the year | 4.747.615         | (92.653)          | 4.654.962         |
| Paid due to claims incurred in prior years  | 7.024.411         | (93.707)          | 6.930.704         |
| <b>Total claims paid</b>                    | <b>11.772.026</b> | <b>(186.360)</b>  | <b>11.585.666</b> |

Disclosures regarding claim development for ten years is provided in note 33.

## 25. Account payable and other liabilities

|  | 2014             | 2013             |
|--|------------------|------------------|
| Account payable                              | 697.372          | 315.018          |
| Income taxes                                 | 263.872          | 476.274          |
| Liability from reinsurance operation         | 56.346           | 68.089           |
| Other liabilities                            | 630.233          | 580.530          |
| <b>Account payable and other liabilities</b> | <b>1.647.823</b> | <b>1.439.911</b> |

## 26. Financial instruments

### 26.1 Classification of financial instruments

The Group's financial assets pertain to the following categories of financial instruments:

#### 31 December 2014

|   | Financial assets at fair value | Loans and receivables | Financial assets held-to-maturity | Total             | Fair value |
|---|--------------------------------|-----------------------|-----------------------------------|-------------------|------------|
| <b>Financial assets</b>                     |                                |                       |                                   |                   |            |
| Securities                                  | 28.880.089                     | 0                     | 4.284.837                         | 33.164.927        | 32.980.237 |
| Accounts and other receivables              | 0                              | 5.713.775             | 0                                 | 5.713.775         | 0          |
| Cash in escrow accounts and restricted cash | 0                              | 1.203.805             | 0                                 | 1.203.805         | 0          |
| Cash and cash equivalents                   | 0                              | 1.399.904             | 0                                 | 1.399.904         | 0          |
| <b>Total financial assets</b>               | <b>28.880.089</b>              | <b>8.317.484</b>      | <b>4.284.837</b>                  | <b>41.482.411</b> |            |



## 26. Financial instruments (Contd.)

31 December 2013

|   | Financial assets<br>at fair value | Loans and<br>receivables | Financial<br>assets<br>held-to-<br>maturity | Total             | Fair value |
|---|-----------------------------------|--------------------------|---|-------------------|------------|
| <b>Financial assets</b>                     |                                   |                          |   |                   |            |
| Securities                                  | 29.438.641                        | 0                        | 4.288.871                                   | 33.727.512        | 33.603.696 |
| Accounts and other receivables              | 0                                 | 5.452.374                | 0   | 5.452.374         | 0          |
| Cash in escrow accounts and restricted cash | 0                                 | 658.566                  | 0   | 658.566           | 0          |
| Cash and cash equivalents                   | 0                                 | 2.661.796                | 0   | 2.661.796         | 0          |
| <b>Total financial assets</b>               | <b>29.438.641</b>                 | <b>8.772.736</b>         | <b>4.288.871</b>                            | <b>42.500.249</b> |            |

### 26.2 Fair value hierarchy

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

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

**Level 2:** Fair value is not based on quoted price in an active market (level 1) but on inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** Fair value measurement is based on significant inputs other than market input.

#### Group

| 31 December 2014                                | Level 1           | Level 2          | Level 3          | Total             |
|---|-------------------|------------------|------------------|-------------------|
| Financial assets at fair value                  | 22.245.938        | 439.356          | 6.194.794        | 28.880.089        |
| Fair value of financial assets held-to-maturity | 1.675.822         | 2.424.326        | 0                | 4.100.148         |
| <b>Financial assets total</b>                   | <b>23.921.760</b> | <b>2.863.682</b> | <b>6.194.794</b> | <b>32.980.237</b> |

#### Group

| 31 December 2013                                | Level 1           | Level 2          | Level 3          | Total             |
|---|-------------------|------------------|------------------|-------------------|
| Financial assets at fair value                  | 24.712.591        | 593.814          | 4.132.236        | 29.438.641        |
| Fair value of financial assets held-to-maturity | 1.729.927         | 2.435.128        | 0                | 4.165.055         |
| <b>Financial assets total</b>                   | <b>26.442.518</b> | <b>3.028.942</b> | <b>4.132.236</b> | <b>33.603.696</b> |

#### Fair value measurement of financial assets classified in level 2 is based on the following methods:

Financial assets for which there is no active market are classified as level 2 for fair value measurement. Fair value is determined by observing recent transactions between unrelated parties or offered prices from unrelated parties. Fair value of similar assets are also taken into account.

#### Fair value measurement of financial assets classified in level 3 is based on the following methods:

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

## 26.2 Fair value hierarchy (Contd.)

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

|   |                  |
|---|------------------|
| Balance at 1.1.2014 .....                 | 4.132.236        |
| Purchased .....                           | 2.051.893        |
| Sold / Repayments .....                   | (799.203)        |
| Reclassification from level 1 and 2 ..... | 198.960          |
| Interest, fair value change .....         | 610.908          |
| <b>Balance at 31.12.2014</b>              | <b>6.194.794</b> |

## 26.3 Risk management

VÍS has a policy to adapt risk management where Solvency II legislation will be taken in to the policy and instructor request from the Icelandic Financial Supervisory Authority no. 3/2014 about risk management and the field of work of an actuaries at insurance companies. The policy also applies to the subsidiary Lífis. Work has begun for the policy implementation. Inside the Group there is an active risk management that has the purpose to control operational risk of the Group. The primary risks are insurance risk, concentration risk, interest risk, currency risk, price risk of marketable securities, credit risk and liquidity risk. In notes about risk management, the risk that the Group faces from above mentioned risks, goals, policies and methods from the Group's risk assessment, risk management and capital management.

## 26.4 Interest rate risk

Interest rate risk is twofold. On the other hand is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates and on the other hand is fair value risk of interest bearing financial assets at fair value through profit or loss as changes in interest rates will affect the yield of these assets and therefore their fair value.

Interest bearing assets of the Group consist of bank deposits and loans. Most of the interest bearing assets of the Group are financial assets at fair value through profit or loss.

### Sensitivity analysis

The following table discloses the effect that 50 and 100 bp changes of interest on interest bearing assets would have on income and equity at the reporting date. The sensitivity analysis is presented for those interest bearing assets with floating rate of interest and is based on the presumption that all other variables remain constant. The sensitivity is presented post-tax end therefore reflects the effect on profit or loss and equity.

The effect on profit or loss and equity is the same since value changes of the underlying financial instruments is in no instances recognised directly in equity. A positive number indicates an increase in profit and equity. Decrease of interest rates would have the same effect in the opposite direction.

|   | 31.12.2014 |        | 31.12.2013 |        |
|---|------------|--------|------------|--------|
|   | 50 bp      | 100 bp | 50 bp      | 100 bp |
| Impact on profit or loss and equity ..... | 5.972      | 11.945 | 11.647     | 23.294 |

## 26.5 Foreign exchange rate risk

Foreign exchange rate risk is the risk of fluctuations of fair value or future cash flows of financial instruments due to changes in exchange rates of foreign currencies. It arises if there is a mismatch in position of assets and liabilities in a foreign currency.

The majority of the Group's assets and liabilities are denominated in ISK. However the Group holds some foreign financial assets. Following is information regarding those foreign currencies that have most impact on the Group's operations. Exchange rates and calculation of volatility disclosed is based on the average exchange rates of the Central Bank of Iceland during the year. Year end rate is according to Íslandsbanki.

| Currency  | Year-end exchange rates |        | Average exchange rates |        | Annual volatility |
|-----------|-------------------------|--------|------------------------|--------|-------------------|
|           | 2014                    | 2013   | 2014                   | 2013   | 2014              |
| USD ..... | 127,03                  | 115,05 | 116,75                 | 122,23 | 10,4%             |
| EUR ..... | 154,60                  | 158,51 | 154,86                 | 162,38 | -2,5%             |
| GBP ..... | 197,37                  | 190,23 | 192,17                 | 191,22 | 3,8%              |
| DKK ..... | 20,77                   | 21,25  | 20,77                  | 21,77  | -2,2%             |
| NOK ..... | 17,08                   | 18,92  | 18,54                  | 20,83  | -9,7%             |
| SEK ..... | 16,23                   | 17,95  | 17,03                  | 18,78  | -9,6%             |

| Foreign exchange rate risk as at 31.12.2014 | Assets           | Liabilities      | Net position     |
|---|------------------|------------------|------------------|
| USD .....                                   | 2.469.142        | 1.289.063        | 1.180.079        |
| EUR .....                                   | 1.011.709        | 389.762          | 621.947          |
| GBP .....                                   | 1.439.664        | 633.872          | 805.792          |
| DKK .....                                   | 39.183           | 0                | 39.183           |
| NOK .....                                   | 16.956           | 0                | 16.956           |
| SEK .....                                   | 1.105            | 0                | 1.105            |
| <b>Total</b>                                | <b>4.977.759</b> | <b>2.312.697</b> | <b>2.665.062</b> |

| Foreign exchange rate risk as at 31.12.2013 | Assets           | Liabilities      | Net position     |
|---|------------------|------------------|------------------|
| USD .....                                   | 1.851.179        | 1.070.478        | 780.701          |
| EUR .....                                   | 1.238.851        | 438.533          | 800.318          |
| GBP .....                                   | 1.108.210        | 639.531          | 468.679          |
| DKK .....                                   | 44.162           | 0                | 44.162           |
| NOK .....                                   | 18.656           | 0                | 18.656           |
| SEK .....                                   | 9.104            | 0                | 9.104            |
| <b>Total</b>                                | <b>4.270.162</b> | <b>2.148.542</b> | <b>2.121.620</b> |

### Sensitivity analysis

The following table discloses the effect of 5% and 10% strengthening of ISK to the respective foreign currencies on profit or loss and equity. The analysis is based on the carrying amount of assets and liabilities denominated in those currencies at the reporting date. A table above discloses those foreign assets and liabilities on which the sensitivity analysis is based, which are mainly foreign denominated securities. The sensitivity analysis is based on the presumption that all other variables remain constant. It is based on post-tax amounts, 20% income tax and reflects the impact on profit or loss and equity. The impact on profit or loss and equity is the same since value changes of the underlying financial instruments are in no instances recognised directly in equity. Weakening of ISK to the following foreign currencies would have increased profit and equity. Strengthening of ISK would have had the same effect in the opposite direction.

## 26.5 Foreign exchange rate risk (contd.)

### Impact on profit or loss and equity

|           | 31.12.2014 |        | 31.12.2013 |        |
|-----------|------------|--------|------------|--------|
|           | 5%         | 10%    | 5%         | 10%    |
| USD ..... | 47.203     | 94.406 | 31.228     | 62.456 |
| EUR ..... | 24.878     | 49.756 | 32.013     | 64.025 |
| GBP ..... | 32.232     | 64.463 | 18.747     | 37.494 |
| DKK ..... | 1.567      | 3.135  | 1.766      | 3.533  |
| NOK ..... | 678        | 1.356  | 746        | 1.492  |
| SEK ..... | 44         | 88     | 364        | 728    |

## 26.6 Price risk of market securities

The Group's investments in market securities are substantial. Market securities consist of both shares and bonds. Market securities and cash and cash equivalents are the most significant assets held with the purpose of covering the Group's technical provision.

For the most part the Group's investments in market securities consist of listed assets. However the Group also holds unlisted assets. Investments in shares and market bonds are designated as financial assets at fair value through profit or loss.

|  | 31.12.2014 | 31.12.2013 |
|--|------------|------------|
| Shares and share funds at fair value through profit or loss                | 8.364.210  | 5.192.021  |
| Debt instruments and other securities at fair value through profit or loss | 20.515.880 | 24.246.621 |

The effect of 5% and 10% increase of the market value of shares and debt securities on profit or loss and equity is disclosed below, net of 20% income tax. 5% and 10% decrease in market value would have the same effect but in the opposite direction.

|  | 31.12.2014 |           | 31.12.2013 |           |
|--|------------|-----------|------------|-----------|
|  | 5%         | 10%       | 5%         | 10%       |
| Shares - impact on profit or loss          | 418.211    | 836.421   | 259.601    | 519.202   |
| Debt securities - impact on profit or loss | 820.635    | 1.641.270 | 969.865    | 1.939.730 |

## 26.7 Credit risk

Credit risk is the risk that the Group's counterparties will not be able to honour their obligations resulting in a loss to the Group. Group management regularly monitors the development of assets exposed to credit risk.

**The maximum exposure to credit risk is as follows:**

|   | <b>31.12.2014</b> | <b>31.12.2013</b> |
|---|-------------------|-------------------|
| Market debt instruments, credit rating AA + .....   | 0                 | 350.614           |
| Market debt instruments, credit rating BBB - .....  | 6.394.262         | 8.303.817         |
| Market debt instruments, credit rating BB+/B+ ..... | 3.160.283         | 0                 |
| Market debt instruments, credit rating BB/B .....   | 364.121           | 8.479.088         |
| Market debt instruments, credit rating BB-/B- ..... | 6.037.430         | 0                 |
| Financial assets held-to-maturity BBB - .....       | 2.700.199         | 2.680.472         |
| Financial assets held-to-maturity BB/B .....        | 0                 | 1.608.399         |
| Financial assets held-to-maturity BB-/B- .....      | 1.584.639         | 0                 |
| Other market securities .....                       | 4.559.785         | 7.113.101         |
| Collateralised loans and other loans .....          | 93.145            | 191.067           |
| Account receivables .....                           | 5.283.955         | 4.925.815         |
| Reinsurance assets .....                            | 4.851             | 42.316            |
| Other receivables .....                             | 1.540.480         | 994.059           |
| Cash and cash equivalents .....                     | 1.399.904         | 2.661.796         |
|   | <b>33.123.052</b> | <b>37.350.543</b> |

The Group's maximum exposure to credit risk corresponds to the carrying amounts disclosed above.

## 26.8 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities.

Liquidity position, its development as well as the impact of market conditions and future outlook is monitored on a regular basis. Much emphasis is placed on that there are always adequate liquid assets to meet expected payments of both claims and other liabilities. The Group's expected payments are very well secured by its liquidity position.

**Expected cash flows of financial liabilities, excluding interest, is specified as follows:**

| <b>31.12.2014</b>                                 | <b>Within one year</b> | <b>2016</b> | <b>2017+</b>  | <b>Total</b> |
|---|------------------------|-------------|---------------|--------------|
| Claims provision                                  | 10.118.508             | 5.823.354   | 6.176.666     | 22.118.528   |
| Accounts payable and other short-term liabilities | 1.327.605              | 0           | 0             | 1.327.605    |
| <b>31.12.2013</b>                                 | <b>Within one year</b> | <b>2015</b> | <b>2016 +</b> | <b>Total</b> |
| Claims provision                                  | 9.980.043              | 5.622.098   | 6.107.684     | 21.709.825   |
| Accounts payable and other short-term liabilities | 895.548                | 0           | 0             | 895.548      |

## 26.9 Insurance risk

Insurance risk is the risk of premiums collected from policyholders are not sufficient to meet obligations arising from underwriting insurance policies.

The main elements of insurance risk are loss frequency risk, loss-size risk, reinsurance risk and technical provision risk. Following is an explanation of those risk factors and disclosures of key figures.

## 26.10 Loss frequency risk

Loss frequency risk is the risk that losses on a specific class of insurance or a certain type of losses become more frequent than assumed when the basis on which premiums are set were made.

Management closely monitors the loss frequency in each class of insurance, mainly in private insurance such as motor vehicle insurance, house owner's insurance and homeowner's insurance, where there is a significant number of policyholders and loss frequency is high. Endeavour is made to analyse possible changes in risk and take the appropriate measures. Diversification of insurance risk by both insurance classes as well as geographically mitigates the Group's loss frequency risk. The Group operates in all branches of casualty insurance and has a robust distribution network all over Iceland in addition to a limited activity abroad. The following table discloses by premiums earned the relative significance of each insurance class.

| <b>Insurance classes - premiums earned</b> | <b>2014</b>       |               | <b>2013</b>       |               |
|--|-------------------|---------------|-------------------|---------------|
| Property insurance                         | 3.749.378         | 23,4%         | 3.927.673         | 24,4%         |
| Marine and cargo insurance                 | 413.350           | 2,6%          | 500.013           | 3,1%          |
| Mandatory vehicle insurance                | 5.081.807         | 31,7%         | 5.056.837         | 31,4%         |
| Other vehicle insurance                    | 2.199.861         | 13,7%         | 2.197.283         | 13,7%         |
| General liability insurance                | 881.650           | 5,5%          | 896.422           | 5,6%          |
| Accident and health insurance              | 1.579.272         | 9,9%          | 1.514.154         | 9,4%          |
| Life insurance                             | 923.523           | 5,8%          | 848.316           | 5,3%          |
| Reinsurance                                | 1.193.961         | 7,5%          | 1.149.341         | 7,1%          |
|  | <b>16.022.802</b> | <b>100,0%</b> | <b>16.090.039</b> | <b>100,0%</b> |

## Domestic and foreign operations - premiums earned

|                     |                   |               |                   |               |
|---------------------|-------------------|---------------|-------------------|---------------|
| Domestic operations | 14.826.718        | 92,5%         | 14.939.733        | 92,9%         |
| Foreign operations  | 1.196.084         | 7,5%          | 1.150.307         | 7,1%          |
|                     | <b>16.022.802</b> | <b>100,0%</b> | <b>16.090.039</b> | <b>100,0%</b> |

## 26.11 Loss-size risk

Loss-size risk is the risk of average loss amounts being higher than expected, largest individual losses being more costly or severe losses more frequent than expected.

Most of the losses are small. The frequency of losses decreases as the loss amounts increase, up to medium-sized losses, severe losses or loss events and catastrophic losses where various classes of insurance and insurance holders are possibly involved. Loss-size risk is mitigated by the Group's reinsurance. Taking into account its financial strength the Group applies a reinsurance policy, specifying how much risk it is willing to carry for its own account and application of its reinsurance policy. Loss-size risk is reduced significantly by reinsurance. However reinsurance gives rise to reinsurers' risk.

## 26.12 Technical provision risk

Technical provision risk is the risk that the unsettled losses or other future risk related to its insurance portfolio being underestimated.

Technical provision consists of unearned premiums and claims provision. Unearned premiums are the estimated amount of insurance liabilities of unexpired policies. Claims provision is the estimated liability due to incurred but unsettled losses, both reported and unreported. The strength of the technical provision, estimated amount of liabilities and its safety is estimated by applying statistical methods.

## Sensitivity analysis

The following table discloses the impact of 1% change in loss amounts, claims provision and unearned premiums on the Group's net income and equity.

|   | 2014    | 2013    |
|---|---------|---------|
| Loss amounts  | 96.950  | 93.301  |
| Claims provision                                    | 166.581 | 163.296 |
| Premiums, based on no change in loss or cost ratios | 9.858   | 13.436  |

## 26.13 Reinsurers' risk

Reinsurers' risk is the risk of reinsurers not paying their share of losses. Settlement of loss events can take many years. During that time the financial strength of reinsurers can deteriorate to the extent that they are not able to honour their obligations. The Group's reinsurance policy stipulates that its reinsurers shall have a rating from an international rating agency. Limits are applied regarding reinsurance from each individual reinsurer. Ratings requirements depend on the estimated settlement period of losses in each contract. In addition to that the number of reinsurers in each contract and maximum risk exposure to each reinsurer is based on that reinsurer's rating. The following table discloses the disaggregation of premiums to reinsurers based on their rating for the year 2014 and an estimation for the year 2015.

|     | 2015          | 2014          |
|-----|---------------|---------------|
| AA+ | 5,7%          | 5,9%          |
| AA- | 77,7%         | 75,4%         |
| A+  | 10,9%         | 12,9%         |
| A   | 0,8%          | 1,6%          |
| A-  | 4,9%          | 4,2%          |
|     | <b>100,0%</b> | <b>100,0%</b> |

## 26.14 Combined ratio and operating ratio

Combined ratio is the sum of incurred losses, operating expenses and net reinsurance cost as a proportion of earned premiums. Operating ratio is the same as combined ratio but as a proportion of earned premiums, investment income and other income from insurance operations.

The following table discloses combined ratio, operating ratio and other key figures of the insurance operations for the past five years. Lifis became a part of the Group on 1 April 2012.

|   | 2014          | 2013         | 2012         | 2011          | 2010          |
|---|---------------|--------------|--------------|---------------|---------------|
| Net claims ratio                                | 78,6%         | 75,5%        | 75,6%        | 83,0%         | 80,3%         |
| Claims ratio                                    | 76,7%         | 78,7%        | 73,6%        | 82,1%         | 80,5%         |
| Operating cost ratio                            | 21,4%         | 21,4%        | 21,6%        | 20,9%         | 21,1%         |
| Reinsurers' cost ratio                          | 2,6%          | -2,3%        | 3,3%         | 3,1%          | 2,7%          |
| <b>Combined ratio</b>                           | <b>100,7%</b> | <b>97,8%</b> | <b>98,5%</b> | <b>106,1%</b> | <b>104,3%</b> |
| Investment income ratio                         | 7,4%          | 7,3%         | 6,8%         | 5,9%          | 7,6%          |
| Ratio of other income from insurance operations | 1,0%          | 1,0%         | 0,8%         | 0,7%          | 0,7%          |
| <b>Operating ratio</b>                          | <b>92,9%</b>  | <b>90,3%</b> | <b>91,6%</b> | <b>99,5%</b>  | <b>96,3%</b>  |

## 27. Related parties

Related parties are those parties, or their companies, that have an influence on the Group, whether directly or indirectly. Related parties are the Group's former parent, large shareholders, board members and members of the boards sub-committees, key management personnel and their families, as well as other parties directed by or under the influence of the Group, such as associates. Transactions with related parties have been on the same terms as with unrelated parties. Salaries and benefits of management personnel is disclosed in note 10.

### Transactions and balances with related parties are specified as follows:

| <b>2014</b>                                     | <b>Income</b> | <b>Expenses</b> | <b>Assets</b> | <b>Liabilities</b> |
|---|---------------|-----------------|---------------|--------------------|
| Related entities                                | 16.352        | 26.821          | 16.601        | 0                  |
| Board of directors and key management personnel | 3.633         | 737             | 437           | 0                  |
|   | <b>19.986</b> | <b>27.557</b>   | <b>17.037</b> | <b>0</b>           |

| <b>2013</b>                                     | <b>Income</b> | <b>Expenses</b> | <b>Assets</b> | <b>Liabilities</b> |
|---|---------------|-----------------|---------------|--------------------|
| Related entities                                | 38.232        | 33.906          | 27.460        | 0                  |
| Board of directors and key management personnel | 3.657         | 2.523           | 838           | 0                  |
|   | <b>41.890</b> | <b>36.429</b>   | <b>28.298</b> | <b>0</b>           |

### 28. Guarantees and other matters

The Group is the lessee in a number of leases of premises in various places in Iceland. Monthly lease payments amount to ISK 18 million at year end 2014. Total future commitment is ISK 602 million as at the same time. The lease contracts are for a specified lease period, more specifically to the years 2017 - 2019.

According to these contracts lease payments for the next year amount to ISK 211 million, ISK 391 million in total for the years 2016-2019.

Rent payments amounted to ISK 212 million for the year 2014 and ISK 206 million for the year 2013.

#### Subpoena from the Winding-up board of SPRON

The Winding-up board of SPRON filed a lawsuit against VÍS on 19 July 2012 claiming among other things that SPRON's repayment on 31 October 2008 of a money market loan provided by VÍS to SPRON in September 2008 be revoked. The Company presented a statement concerning the case on 15 January 2013 which is under proceedings in the District Court of Reykjavik. SPRON's claim amount is ISK 2 billion in addition to interest on arrears. It is uncertain when a court ruling will be available and delayed ruling by courts of law can affect the final amount of the claim presented by the SPRON Winding-up board as it is unclear whether and for which period interest on arrears would be calculated should the ruling be in disadvantage for VÍS. However, based on judicial precedents and provisions of the Act on interests it can be assumed that it is more likely than not that the initial date of the period for which interest on arrears is calculated would be the date the lawsuit was filed, i.e. 19 July 2012.

On 4 November 2014 SPRON demanded that the case would be postponed until ruling of the indictment of the directors and CEO of SPRON (the criminal case). On 8 January 2015 the Supreme Court of Iceland ruled that the case would be postponed until ruling of the district court of the criminal case. The Special Prosecutor is not investigating any cases that regards the Group itself or present or former directors of the Group. This ruling of the Supreme Court of Iceland increases the uncertainty about the time that it will take to finish the case.

The Company's management believes that the Winding-up board's case is weak and believes that it is more likely than not that the Company will be acquitted from the Winding-up board's claim. Therefore, no provision has been recognised in the financial statements of the Group. In order to reduce the uncertainty over the effect of the aforementioned lawsuit on the value of shares in VÍS and the Company's equity, Klakki ehf., in relation to the stock offering in April 2013, subscribed to class B shares in the amount of ISK 3.5 billion (excl. the right to vote and to receive dividend) in the event the ruling in the case is unfavourable for VÍS. Class B shares will then be redeemed by VÍS within 12 months from their date of issue on the basis of a recovered claim against SPRON, its sales value or surrendering of a claim to Klakki in the amount of ISK 1, should neither of the aforementioned be available. Available is a bank guarantee in the amount of ISK 3.5 billion as collateral for Klakki ehf.'s fulfilment of its obligation according to the aforementioned subscription.

### 29. Events after the reporting date

No events have occurred subsequent to the reporting date that would require corrections or changes to the financial statements.



### **30. Significant accounting policies:**

The accounting policies as set out below have been applied consistently for all periods to the financial statements and for all the Group's entities. The Group has adopted all international financial reporting standards, interpretations and changes to standards adopted by the European Union that are applicable to the Group at year end 2014. A few new standards, changes to standards and interpretations of standards are not yet effective as of year end 2014 and have not been applied in these financial statements. The effects of those changes to standards and interpretations have not been evaluated.

#### **30.1 Group**

The Group's financial statements include the financial statements of the Parent Company and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The financial results of subsidiaries acquired or sold during the year are included in the financial statements from the date of acquisition to the date of disposal, as applicable.

The consolidated financial statements include the revenue, expenses, assets and liabilities of the Group from transactions with third parties. Inter-company transactions are eliminated in the consolidated accounts. When applicable the financial statements of subsidiaries are modified to align them with the accounting policies of the Group.

If shareholding in a subsidiary is less than 100% a non-controlling interest in profit or loss and equity is recognised. However, since non-controlling interest is immaterial it is not presented separately in the financial statements.

#### **30.2 Subsidiaries**

Acquisition of subsidiaries are recognised in accordance with the acquisition method. Accordingly assets, liabilities and equity instruments issued as consideration to obtain control are measured at fair value at the acquisition date. Acquisition-related cost is recognised in profit or loss as incurred.

Contingent assets or liabilities related to the acquisition are measured at fair value at the acquisition date. Subsequent changes to the fair value of those assets and liabilities are recognised as an adjustment to the acquisition cost if they qualify as period adjustment. All later adjustments to fair value of contingent assets and liabilities are recognised in accordance to applicable standards. Changes to contingent payments classified as equity are not recognised.

#### **30.3 Goodwill**

Goodwill that arises from acquisitions is recognised on the date the Company achieves control of the acquired company. Goodwill is the difference between the acquisition price of a subsidiary and the acquirer's interest in the net assets of the subsidiary, at fair value at the acquisition date. Goodwill is not amortised but tested annually for impairment or more often if there is any indication of impairment. For the purpose of impairment testing goodwill is allocated to cash-generating units. Those cash-generating units to which goodwill has been allocated are tested for impairment. Impairment has occurred if carrying amount exceeds recoverable amount. Impairment is first recognised by the expense of goodwill and thereafter as a reduction of the carrying amount of other assets of that cash-generating unit. Impairment losses of goodwill is not reversed in later periods.

#### **30.4 Customer relationships**

Customer relationships, recognised upon acquisition of operations, are amortised over the estimated useful life, which is 10 years.

### **30.5 Revenue**

#### ***Premiums***

Premiums recognised as income in profit or loss comprise the premiums contracted during the year including premiums transferred from prior year but excluding next year's premiums, which are recognised as unearned premiums. Unearned premiums in the balance sheet form the part of premiums due to insurance risk during the period which belongs to unexpired insurance policies at year end.

#### ***Dividend and interest income***

Dividend income from investments are recognised on the date when the right to dividend is established.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is recognised as accrued based on effective interest rate. Effective interest rate is the rate of interest that discounts the expected cash flows or revenue over its estimated life so as to equal the carrying amount of the financial asset.

### **30.6 Expenses from insurance operations**

Claims expensed in profit or loss consist of claims incurred during the year as well as the effect of reassessment of claims from previous years. Claims provision in the balance sheet consists of total amount of reported unsettled claims as well as actuarial estimation of incurred but unreported claims.

### **30.7 Insurance contracts**

The Company issues contracts that transfer both financial and insurance risk from its customers to the Company.

#### ***Definition of insurance contracts***

Insurance contracts are contracts under which the insurer accepts, in accordance with contractual provisions, to compensate the policyholder for financial loss incurred due to insured event.

The insured event is uncertain, it is not known if or when it occurs, and generally its financial consequences are not known beforehand.

#### ***Classification of insurance contracts***

Casualty insurance contracts consist of third party liability contracts, accident contracts and property insurance contracts including marine insurance contracts.

Third party liability contracts protect the customer for the risk of causing harm to third parties as a result of their legitimate activities.

Accident insurance contracts compensate the insured own bodily injuries in accordance to contractual provisions.

Property insurance contracts compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers operating in businesses could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business.

Life insurance contracts are related to life of human beings, for instance death or living beyond the insurance period. Premiums are recognised as revenue during the policy life. Damages are expensed when the insured event occurs.

#### ***Investments where investment risk is borne by the life-insurance policyholder***

Investments where the investment risk is borne by the policyholder are financial assets of the Company selected by the investment and life-insurance policyholders. The policyholders bear the investment risk in those investment life-insurance policies. Investment for the benefit of life-insurance policyholders is recognised as a liability in the balance sheet to the same amount.

### **Technical provision**

At each reporting date the Group evaluates its technical provision so as to conclude on if it is sufficient to cover the Group's liabilities due to written insurance contracts. The evaluation is based on estimated future cash flows of the technical provision. All changes in technical provision is recognised in profit or loss. The evaluation takes into account all expected contractual cash flows due to claims and claims expenses.

### **Reinsurance contracts**

The Group enters into reinsurance contracts with the purpose of mitigating its risk. Reinsurance contracts are either proportional or bearing all risk if insurance loss amount due to a loss event exceeds prior determined contractual amount.

Claims on reinsurers due to premiums and claims are recognised as reinsurance assets. It consists of claims on reinsurers due to their portion of claims in accordance with reinsured insurance contracts as well as their portion of the claims provision. Liabilities due to reinsurance consist of reinsurers's share of premiums due to reinsurance contracts, expensed in profit or loss on renewal of reinsurance contracts.

### **30.8 Foreign currencies**

Foreign exchange difference is recognised in profit or loss as incurred.

### **30.9 Financial expenses**

Financial expenses are expensed in profit or loss as incurred.

### **30.10 Income taxes**

Income taxes expensed consists of current taxes and deferred tax.

#### **Current taxes**

Current taxes are the expected taxes payable on taxable income for the year, and any adjustment to taxes payable in respect of previous years. It is based on tax rates enacted at the reporting date. Taxable income for the year is generally different from profit or loss for the year according to the financial statements.

#### **Deferred tax**

Deferred tax is due to temporary difference between taxable income and profit or loss according to the financial statements. The reason is that the Group's tax base is based on premises different from the financial statements. Deferred tax is not recognised on non-deductible goodwill. Deferred tax is calculated based on the tax rate enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the tax asset can be utilised in the future.

Deferred tax is expensed in profit or loss unless it is related to items recognised directly in equity. If so the tax is also recognised in equity.

### **30.11 Operating assets**

An operating asset is recognised when it is probable that economic benefits embodied in the asset will flow to the Group and its cost can be measured reliably. Operating assets are recognised at cost value less accumulated depreciation and impairment. The cost of operating assets consists of the purchase price and all directly attributable cost necessary to make the asset capable of generating revenue.

Equipment is recognised at cost less accumulated depreciation and impairment.

Depreciation is recognised on a systematic bases over the expected useful life of the asset, taking into account its estimated residual value. Depreciation method, expected useful life and residual value is reviewed at least annually.

Gain or loss on sale of operating assets is calculated as the difference between the sale price and carrying amount. It is recognised in profit or loss as part of other income.

### **30.12 Software**

Software is recognized at cost less accumulated amortisation. The cost price consist of the purchase price and all direct cost to get the software in to use. Software is amortised using the straight-line method over 3 to 10 year from the date it was taken into use.

### **30.13 Financial assets**

The Group's financial assets consist of financial assets at fair value through profit or loss, financial assets held-to-maturity and loans and receivables. Financial assets are recognised initially at fair value, taking into account transaction cost incurred in the case of financial assets not recognised subsequently at fair value. Subsequent to initial recognition financial assets at fair value through profit or loss are recognised at fair value but financial assets held-to-maturity as well as loans and receivables are recognised at amortised cost based on the effective interest rate method.

Financial assets held-to-maturity are recognised at fair value at the transaction date, plus transaction cost when the Group has entered into a contract for the delivery or receipt of financial assets within a specified period. Financial assets at fair value through profit or loss are recognised initially at fair value.

Fair value is the price in an orderly transaction to sell an asset or to transfer a liability at the measurement date. More specifically it is the price obtained on sale of assets or paid to transfer a liability in an orderly transaction between market participants.

#### ***Effective interest rate***

Effective interest method consist in calculating the repayment value of a financial asset or liability and allocating interest income or expenses over the life of the instrument. Effective interest rate is the rate that discounts the expected cash flows or income over the estimated life of a financial instrument, or a shorter period if relevant, so as to equal the carrying amount of the financial asset or liability in the balance sheet.

Interest income is recognised in accordance with effective interest rate for all financial instruments except for those designated as financial assets at fair value through profit or loss.

#### ***Financial assets at fair value through profit or loss***

Financial assets are classified as at fair value through profit or loss if they are acquired with the intention of short-term profit taking. The same applies for all other financial assets the Group designates as at fair value through profit or loss.

Fair value changes of financial assets consist of changes in fair value, dividend income, interest income and indexation.

A financial asset can be designated as at fair value through profit or loss at initial recognition if one of the following conditions are fulfilled:

- the designation reduces or eliminates measurement or recognition mismatch.
- the financial asset is a part of a portfolio of financial assets or liabilities, or both, and is recognised at fair value in accordance with the Group's documented risk management policy or investment management policy.
- the financial asset is a part of a contract containing one or more embedded derivatives and it is permitted to recognise the hybrid instrument (asset or liability) at fair value through profit or loss.

### ***Financial assets held-to-maturity***

Financial assets are classified as held-to-maturity investments when the Group has the positive intent and ability to hold the asset to maturity. Held-to-maturity investments are recognised at amortised cost based on effective interest rate, less any impairment.

### ***Loans and receivables***

Accounts receivable, loans and other receivables with fixed payments and not quoted in an active market, are classified as loans and receivables. Loans and receivables are recognised at amortised cost based on effective interest rate, less any impairment. Interest income on loans and receivables are recognised based on effective interest rate.

### ***Impairment of financial assets***

Carrying amount of financial assets, other than those recognised as at fair value through profit or loss, are at each reporting date reviewed for any indication of impairment. Impairment has occurred if the estimated future cash flows, based on the initial effective interest rate, is lower than carrying amount. If impairment no longer exists it is reversed but only to the extent of previously recognised impairment.

If it is not possible to review individual financial assets for impairment, the portfolio to which they pertain is reviewed for impairment.

Previously recognised impairment of equity instruments is not reversed through profit or loss. Subsequent increase in fair value is recognised in equity.

At each reporting date financial assets not at fair value through profit or loss are reviewed for possible indication of impairment. A financial asset is considered impaired if an objective event, subsequent to initial recognition, reveals that the expected future cash flows of the financial assets will be lower than previously estimated and the effect of the loss event can be objectively determined.

Impairment assessment of each portfolio of financial assets is based on historical experience with respect to those assets, the date on which the loss could possibly be recovered and the amount of the loss. The assessments includes management estimation as to whether current economic and loan conditions are such that the loss will be more or less than would be expected based on historical experience.

### ***Derecognition of financial assets***

The Group derecognises a financial asset if, and only if, the contractual right to the cash flows of the asset no longer exists or the risk and reward of the financial asset is transferred to a third party.

## **31.14 Impairment**

At each reporting date management review the carrying amount of tangible and intangible assets for indications of impairment. If any such indication exists the recoverable amount of the asset is estimated. The recoverable amount of a cash-generating unit to which the asset belongs, is estimated if it is not possible to test the asset individually for impairment.

Recoverable amount is the higher of fair value less cost to sell and value in use. Value in use is based on estimated future cash flows, discounted at pre-tax rate of interest, where the interest rate reflects the market assessment of time value of money at each time and the risk embodied in the asset.

Intangible assets with indefinite useful life and intangible assets not ready for use are tested for impairment annually and more often if there is any indication of impairment.

If the recoverable amount of an asset is lower than its carrying amount the carrying amount is reduced to the recoverable amount. Impairment loss is recognised in profit or loss.

A recovery of the asset, subsequent to impairment recognition, is reversed. However reversal is limited to the amount of the asset not being recognised at an amount higher than its carrying amount prior to the impairment recognition. Reversal of impairment of goodwill is prohibited.

### 31.15 Obligations

An obligation is recognised when the Group has legal or constructive obligation due to a past event, payment is probable and the amount of the obligation can be reliably determined.

The amount of the obligation is based on the best possible estimation of the liability at the reporting date. If the amount of the obligation is based on estimated future cash flows it is recognised at present value.

If the obligation is recoverable from a third party, the amount is recognised as an asset.

### 31.16 Financial liabilities and equity instruments

#### *Classification as liabilities and equity*

Liabilities and equity instruments are classified in accordance with their contractual provisions.

An equity instrument is a contract that evidences residual interest in assets of a company after deduction of all its liabilities.

#### *Guarantees*

Guarantees related to financial liabilities are initially recognised at fair value. Guarantees are subsequently, except for those classified as at fair value through profit or loss, recognised at the higher of:

- the amount of the underlying liability, estimated in accordance with IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*.
- the amount of the original contract less amortisation in accordance with rules on revenue recognition.

#### *Financial liabilities*

The Group's financial liabilities consist of trade and other payables. Financial liabilities are initially recognised at fair value less transaction cost. They are derecognised if the Group's liabilities, as contractually defined, are paid, expire, discharged or cancelled.

## 31. Quarterly statement (unaudited)

|   | Total 2014       | Q1 2014         | Q2 2014        | Q3 2014        | Q4 2014        |
|---|------------------|-----------------|----------------|----------------|----------------|
| Premiums earned   | 16.022.802       | 3.860.541       | 3.920.632      | 4.071.947      | 4.169.682      |
| Premiums earned, net of reinsurance                     | 15.420.013       | 3.700.083       | 3.773.016      | 3.916.771      | 4.030.143      |
| Investment income                                       | 2.438.958        | 170.899         | 492.375        | 763.214        | 1.012.470      |
| Other income  | 163.429          | 47.311          | 36.527         | 34.519         | 45.072         |
| Total income  | 18.022.400       | 3.918.292       | 4.301.918      | 4.714.505      | 5.087.685      |
| Claims incurred   | (12.296.578)     | (2.973.618)     | (2.811.277)    | (3.268.884)    | (3.242.799)    |
| Claims incurred, net of reinsurance                     | (12.118.691)     | (2.938.414)     | (2.783.851)    | (3.203.569)    | (3.192.857)    |
| Operating expenses                                      | (3.918.914)      | (1.000.708)     | (993.859)      | (944.538)      | (979.809)      |
| Impairment of account receivables and interest expenses | (31.070)         | (7.075)         | (5.635)        | (14.657)       | (3.703)        |
| Profit before income tax                                | 1.953.725        | (27.904)        | 518.573        | 551.741        | 911.316        |
| Income tax  | (243.705)        | 13.874          | (53.614)       | (96.837)       | (107.128)      |
| <b>Total comprehensive income for the period</b>        | <b>1.710.020</b> | <b>(14.030)</b> | <b>464.959</b> | <b>454.904</b> | <b>804.188</b> |

### 31. Quarterly statement (unaudited contd.)

|   | Total 2013       | Q1 2013        | Q2 2013        | Q3 2013        | Q4 2013        |
|---|------------------|----------------|----------------|----------------|----------------|
| Premiums earned   | 16.090.039       | 4.024.493      | 3.946.406      | 4.058.015      | 4.061.125      |
| Premiums earned, net of reinsurance                     | 15.447.269       | 3.877.660      | 3.774.860      | 3.888.610      | 3.906.139      |
| Investment income                                       | 2.630.729        | 975.890        | 398.274        | 1.082.663      | 173.902        |
| Other income  | 154.782          | 34.116         | 46.758         | 33.639         | 40.269         |
| Total income  | 18.232.781       | 4.887.666      | 4.219.892      | 5.004.912      | 4.120.310      |
| Claims incurred   | (12.667.260)     | (3.037.960)    | (2.798.874)    | (2.897.967)    | (3.932.459)    |
| Claims incurred, net of reinsurance                     | (11.662.627)     | (3.020.704)    | (2.763.851)    | (2.868.117)    | (3.009.955)    |
| Operating expenses                                      | (3.934.148)      | (999.412)      | (978.392)      | (932.571)      | (1.023.774)    |
| Impairment of account receivables and interest expenses | (80.228)         | (38.394)       | (21.823)       | (19.660)       | (351)          |
| Profit before income tax                                | 2.555.778        | 829.157        | 455.826        | 1.184.564      | 86.230         |
| Income tax  | (401.732)        | (118.178)      | (72.381)       | (235.773)      | 24.600         |
| <b>Total comprehensive income for the period</b>        | <b>2.154.046</b> | <b>710.978</b> | <b>383.445</b> | <b>948.791</b> | <b>110.831</b> |

### 32. Key ratios (unaudited)

|                                       | Total 2014 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 |
|---------------------------------------|------------|---------|---------|---------|---------|
| Claims ratio                          | 76,7%      | 77,0%   | 71,7%   | 80,3%   | 77,8%   |
| Claims ratio net of reinsurers' share | 78,6%      | 79,4%   | 73,8%   | 81,8%   | 79,2%   |
| Cost ratio                            | 21,4%      | 22,7%   | 22,1%   | 20,2%   | 20,5%   |
| Reinsurance cost ratio                | 2,6%       | 3,2%    | 3,1%    | 2,2%    | 2,0%    |
| Combined ratio                        | 100,7%     | 102,9%  | 96,9%   | 102,7%  | 100,4%  |
| Solvency ratio of the Group           | 3,1        | 3,7     | 3,7     | 3,8     | 3,1     |
| Solvency ratio of the Parent Company  | 4,0        | 4,8     | 4,9     | 4,9     | 4,0     |

|                                       | Total 2013 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 |
|---------------------------------------|------------|---------|---------|---------|---------|
| Claims ratio                          | 78,7%      | 75,5%   | 70,9%   | 71,4%   | 96,8%   |
| Claims ratio net of reinsurers' share | 75,5%      | 77,9%   | 73,2%   | 73,8%   | 77,1%   |
| Cost ratio                            | 21,4%      | 21,7%   | 21,7%   | 20,1%   | 22,0%   |
| Reinsurance cost ratio                | -2,3%      | 3,2%    | 3,5%    | 3,4%    | -18,9%  |
| Combined ratio                        | 97,8%      | 100,4%  | 96,1%   | 94,9%   | 100,0%  |
| Solvency ratio of the Group           | 3,7        | 3,9     | 4,0     | 4,2     | 3,7     |
| Solvency ratio of the Parent Company  | 4,8        | 5,1     | 5,2     | 5,4     | 4,8     |

### 33. Development of claims provision (unaudited)

The first table below discloses the Group's estimation of the ultimate amounts of claims incurred for each year and the development of the estimate between years. Development between years is an indication of the Group's ability to determine its obligations arising from insurance contracts. It should be noted that the amounts are not disclosed on a fixed price level. Therefore price changes do to some extent have an impact on the development between years. The second table, claims incurred, net of reinsurers' share, discloses claims incurred where reinsurers' share has been deducted from the first table. The tables have been changed from previous year.

#### Total amounts in ISK million

|  | 2005  | 2006  | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | Samtals       |
|--|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|
| Estimated ultimate claims incurred                     |       |       |        |        |        |        |        |        |        |        |               |
| By the end of the year the claim event occurred        | 7.964 | 9.379 | 11.158 | 11.732 | 12.197 | 12.966 | 14.117 | 12.644 | 12.230 | 13.539 |               |
| One year later   | 8.042 | 9.153 | 11.310 | 12.643 | 12.334 | 12.168 | 14.390 | 13.974 | 12.741 |        |               |
| Two years later  | 7.817 | 9.394 | 11.574 | 12.562 | 12.736 | 12.091 | 13.921 | 13.142 |        |        |               |
| Three years later                                      | 7.885 | 9.143 | 11.164 | 12.201 | 12.338 | 11.767 | 13.226 |        |        |        |               |
| Four years later                                       | 7.363 | 9.011 | 11.074 | 12.172 | 12.227 | 11.745 |        |        |        |        |               |
| Five years later                                       | 7.241 | 9.082 | 11.091 | 12.208 | 12.106 |        |        |        |        |        |               |
| Six years later  | 7.207 | 9.056 | 11.112 | 12.148 |        |        |        |        |        |        |               |
| Seven years later                                      | 7.257 | 9.127 | 11.112 |        |        |        |        |        |        |        |               |
| Eight years later                                      | 7.222 | 9.112 |        |        |        |        |        |        |        |        |               |
| Nine years later                                       | 7.231 |       |        |        |        |        |        |        |        |        |               |
| Estimated accumulated claims incurred at year end 2014 | 7.231 | 9.112 | 11.112 | 12.148 | 12.106 | 11.745 | 13.226 | 13.142 | 12.741 | 13.539 |               |
| Total payments at year end 2014                        | 7.075 | 8.850 | 11.870 | 11.718 | 11.771 | 10.847 | 11.235 | 9.196  | 7.341  | 5.302  |               |
| Claims provision at year end 2014                      | 156   | 263   | 242    | 430    | 335    | 898    | 1.991  | 3.947  | 5.401  | 8.237  | 21.899        |
| Claims provision due to prior years                    |       |       |        |        |        |        |        |        |        |        | 220           |
| <b>Total claims provision</b>                          |       |       |        |        |        |        |        |        |        |        | <b>22.119</b> |

#### Claims incurred, net of reinsurers' share in ISK million

|  | 2005  | 2006  | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | Samtals       |
|--|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|
| Estimated ultimate claims incurred                     |       |       |        |        |        |        |        |        |        |        |               |
| By the end of the year the claim event occurred        | 7.474 | 8.656 | 10.828 | 11.599 | 12.110 | 12.676 | 13.941 | 12.359 | 12.096 | 13.322 |               |
| One year later   | 7.489 | 8.440 | 10.898 | 12.448 | 12.211 | 11.958 | 14.205 | 12.850 | 12.602 |        |               |
| Two year later   | 7.286 | 8.631 | 11.179 | 12.376 | 12.620 | 11.842 | 13.738 | 12.014 |        |        |               |
| Three year later                                       | 7.330 | 8.321 | 10.780 | 12.025 | 12.224 | 11.529 | 13.036 |        |        |        |               |
| Four year later  | 6.809 | 8.158 | 10.692 | 11.991 | 12.111 | 11.561 |        |        |        |        |               |
| Five year later  | 6.682 | 8.270 | 10.709 | 12.028 | 11.992 |        |        |        |        |        |               |
| Six year later   | 6.648 | 8.244 | 10.720 | 11.966 |        |        |        |        |        |        |               |
| Seven year later                                       | 6.697 | 8.276 | 10.721 |        |        |        |        |        |        |        |               |
| Eight year later                                       | 6.667 | 8.262 |        |        |        |        |        |        |        |        |               |
| Nine year later  | 6.677 |       |        |        |        |        |        |        |        |        |               |
| Estimated accumulated claims incurred at year end 2014 | 6.677 | 8.262 | 10.721 | 11.966 | 11.992 | 11.561 | 13.036 | 12.014 | 12.602 | 13.322 |               |
| Total payments at year end 2014                        | 6.521 | 8.074 | 10.499 | 11.540 | 11.657 | 10.678 | 11.114 | 9.057  | 7.214  | 5.180  |               |
| Claims provision at year end 2014                      | 156   | 188   | 222    | 426    | 335    | 883    | 1.922  | 2.957  | 5.387  | 8.142  | 20.618        |
| Claims provision due to prior years                    |       |       |        |        |        |        |        |        |        |        | 204           |
| <b>Total claims provision</b>                          |       |       |        |        |        |        |        |        |        |        | <b>20.823</b> |

#### Reinsurers' share of claims incurred

|                                     |     |     |     |     |     |     |     |       |     |     |              |
|-------------------------------------|-----|-----|-----|-----|-----|-----|-----|-------|-----|-----|--------------|
| Paid + claims provision             | 555 | 851 | 391 | 181 | 114 | 184 | 190 | 1.128 | 140 | 217 |              |
| Paid                                | 555 | 776 | 371 | 178 | 114 | 168 | 121 | 139   | 127 | 122 |              |
| Claims provision                    | 0   | 75  | 20  | 4   | 0   | 16  | 69  | 990   | 13  | 95  | 1.281        |
| Claims provision due to prior years |     |     |     |     |     |     |     |       |     |     | 15           |
| <b>Total claims provision</b>       |     |     |     |     |     |     |     |       |     |     | <b>1.296</b> |



# Glossary of Terms

**Arðsemi eigin fjár**

**Bókfærð iðgjöld**

**Eigið fé**

**Eigið tjónahlutfall**

**Eigin iðgjöld**

**Eigin tjón**

**Eigin váttryggingaskuld**

**Eiginfjárlutfall**

**Endurtryggingaeignir**

**Endurtryggingakostnaðarlutfall**

**Endurtryggingakostnaður**

**Fjárfestingatekjur af váttryggingarekstri**

**Gjaldþol**

**Gjaldþolshlutfall**

**Handbært fé**

**Iðgjaldaskuld**

**Iðgjöld ársins**

**Kostnaðarlutfall**

**Lágmarks gjaldþol**

**Óráðstafað eigið fé**

**Rekstrarhlutfall**

**Rekstrarkostnaðarlutfall**

**Samsett hlutfall**

**Tjón ársins**

**Tjónahlutfall**

**Tjónaskuld**

**Váttryggingaskuld**

Hagnaður sem hlutfall af meðalstöðu eigin fjár

Útgefin iðgjöld á árinu

Eignir umfram skuldir

Eigin tjón á móti eigin iðgjöldum

Iðgjöld ársins að frádregnum hluta endurtryggjenda

Tjón ársins að frádregnum hluta endurtryggjenda

Váttryggingaskuld að frádregnum hluta endurtryggjenda

Eigið fé á móti heildar eignum

Hluttur endurtryggjenda í tjónaskuld og iðgjaldaskuld ásamt kröfum vegna endurtryggingastarfsemi

Kostnaður vegna endurtrygginga sem hlutfall af iðgjöldum ársins

Iðgjöld til endurtryggjenda að frádregnum hluta endurtryggjenda

í tjónum og fengnum umboðslaunum frá endurtryggjendum

Reiknuð ávöxtun af eigin váttryggingaskuld

Eigið fé að frádregnum væntanlegum arðgreiðslum, óefnislegum eignum og fyrirsjáanlegri rýrnun eigin fjár

Gjaldþol sem hlutfall af lágmarksgjaldþoli

Sjóður og óbundnar bankainnstæður

Iðgjöld vegna áhættu sem ekki er útrunnin

Iðgjöld vegna áhættu sem tilheyrir uppgjörssárinu

Kostnaður sem hlutfall af iðgjöldum ársins

Lágmarkskröfur um gjaldþol skv. lögum um váttryggingastarfsemi

Uppsafnaður óráðstafaður hagnaður fyrri ára

Tjón, endurtryggingakostnaður og rekstrarkostnaður vegna váttryggingastarfsemi, sem hlutfall af iðgjöldum ársins að viðbættum fjárfestingatekjum af váttryggingarekstri

Rekstrarkostnaður sem hlutfall af iðgjöldum ársins

Tjón, endurtryggingakostnaður og rekstrarkostnaður vegna váttryggingastarfsemi, sem hlutfall af iðgjöldum ársins

Greidd tjón að viðbætti breytingu á tjónaskuld

Tjón ársins á móti iðgjöldum ársins

Áætluð ógreidd tjón í lok uppgjörstímabils

Heildarskuldbindingar vegna gerðra váttryggingasamninga, þ.e. tjónaskuld ásamt iðgjaldaskuld

# Glossary of Terms

|   |  |
|---|--|
| <b><i>Claim's ratio</i></b>                               | Own claims in comparison with own premiums   |
| <b><i>Claims incurred</i></b>                             | Paid claims with appendant changes to claims outstanding   |
| <b><i>Claims outstanding</i></b>                          | Calculated unpaid claims at end of accounting period   |
| <b><i>Claims ratio</i></b>                                | Claims paid compared to premiums earned  |
| <b><i>Combined ratio</i></b>                              | Claims, reinsurance expenses and operating costs from insurance activities as a ratio of premiums earned                           |
| <b><i>Cost ratio</i></b>                                  | Cost as a ratio of premiums earned   |
| <b><i>Equity ratio</i></b>                                | Own equity in comparison with total assets   |
| <b><i>Investment income from insurance operations</i></b> | Calculated return on own technical provision   |
| <b><i>Minimum solvency</i></b>                            | Minimum solvency requirement according to law regarding insurance activities   |
| <b><i>Net cash from operating activities</i></b>          | Funds and bank deposits  |
| <b><i>Operating ratio</i></b>                             | Operating costs as a ratio of premiums earned  |
| <b><i>Own equity</i></b>                                  | Assets in excess of debts  |
| <b><i>Own technical provision</i></b>                     | Technical provision less reinsurers' share   |
| <b><i>Premiums earned</i></b>                             | Premiums from risk pertaining to year under review   |
| <b><i>Premiums earned, net of reinsurance</i></b>         | Premiums earned less reinsurers' share   |
| <b><i>Provision for unearned premiums</i></b>             | Premiums from risk that has not expired  |
| <b><i>Reinsurance expense ratio</i></b>                   | Reinsurance expense as a ratio of premiums earned  |
| <b><i>Reinsurance expenses</i></b>                        | Premiums to reinsurers less the reinsurers' share in claims and received commissions from reinsurers                               |
| <b><i>Reinsurers' assets</i></b>                          | Reinsurers' share in claims outstanding and provision for unearned premiums along with debts arising out of reinsurance operations |
| <b><i>Retained earnings</i></b>                           | Accumulated profits from previous years  |
| <b><i>Return on owners' equity</i></b>                    | Profit as a ratio of owner's equity  |
| <b><i>Solvency</i></b>                                    | Owner's equity less prospective dividend payment, intangible assets and foreseeable impairment of own equity                       |
| <b><i>Solvency ratio</i></b>                              | Solvency as a ratio of minimum solvency  |
| <b><i>Technical provision</i></b>                         | Total liabilities from insurance contracts, i.e. claims outstanding along with provisions for unearned premiums                    |

