Vátryggingafélag Íslands hf.

Consolidated Financial Statements

2015

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

Vátryggingafélag Íslands hf.

Consolidated Financial Statements

2015

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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 2015 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".

Operation

According to the statement of profit or loss and other comprehensive income the Group´s profit for the year 2015 amounted to ISK 2,076 million (2014: ISK 1,240 million). The Group´s assets at year end amounted to ISK 44,874 million (2014: ISK 46,330 million) and equity amounted to ISK 17,552 million (2014: ISK 19,180 million) according to the balance sheet. Average number of employees in 2015 was 191 (2014: 195).

At year-end 2015 the Company changed its accounting policy for valuation on technical provision due to new insurance rulings, Solvency II, which will take effect in Iceland early in 2016. With the new insurance legislation risk will be measured differently than in previous years. This change will e.g. have effect on equity, technical provision and income tax. The profit or loss for the year 2014 and the balance sheet for the years 2013 and 2014 have been changed accordingly. At year beginning 2014 technical provision decreased by ISK 5,001 million and equity increased by ISK 3,964 million because of the new insurance legislation, but further information about changes are disclosed in note 4.

At year-end the Company's investment in a new software system was tested for impairment. The reason, among other things, is the fact that the instillation period has been longer than estimated and cost for the software has been considerably higher than expected. Expectations are that the operating advantage from the software is expected, compared to the current software, but not to the extent expected according to original plans. The Company has in recent years worked on extensive improvements on its internal processes to improve efficiency at the same time as the instalment of the new software. As a result of the impairment test the software was fully amortised. The amortisation amounted to ISK 1,430 million. The effects on the Company's solvency and dividend payments capabilities were none. The impairment does not affect the Company's plan to start to use the software in the middle of 2016.

The Company announced on 18 January 2016 that deal had been made for the issue of new subordinated bonds in the nominal amount of ISK 2,500 million. The new bonds are coupon bonds which bear 5.25% fixed indexed rate. The bonds will mature in 30 years. They include a prepayment option and a step-up of interest rate up to 6.25% after 10 years. The issue is a part of Tier 2 equity which aims to make capital structure of the Company as preferable as possible. Further information on the issuance is in note 3D to the financial statements.

Share capital and articles of association

Listed share capital of the Company was ISK 2,438 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 Nasdaq Iceland. All shares are in one class and carry equal rights.

The Company bought treasury shares in the year 2015 according to the share repurchase programs. The Company bought 142 million shares for ISK 1,216 million during the year 2015 and holds 5.83% of its shares. The share repurchase program was completed on 30 November 2015 and no treasury shares have been bought since then.

At the annual general meeting of the Board of Directors will propose that a dividend for the year 2015 of ISK 2.17 per share will be paid to shareholders, or total amount of ISK 5,000 million. Reference is made to the financial statements regarding changes in equity of the Group and allocation of profit.

Report and Endorsement of the Board of Directors and the CEO

Ten largest shareholders at year end were:

Name of shareholder	Ownership
Lífeyrissjóður verslunarmanna	9,3%
Stefnir - ÍS 15	7,7%
Gildi lífeyrissjóður	6,6%
Virðin safnreikningur	5,7%
Óskabein ehf.	5,5%
Líferyrissj. Starfsm.rík. A-deild	5,0%
Stapi lífeyrissjóður	2,5%
Sameinaði lífeyrissjóðurinn	2,5%
Steinunn Margrét Tómasdóttir	2,5%
Kvika banki hf.	2,4%

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 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.

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 2015, its assets, liabilities and consolidated financial position as at 31 December 2015. 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 note 27 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 2015 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, 24 February 2016

Board of Directors

Herdís Dröfn Fjeldsted
Chairman of the Board

Jostein Sörvoll
Vice-chairman of the Board

Bjarni Brynjólfsson

Helga Jónsdóttir

Guðmundur Þórðarson

CEO

Sigrún Ragna Ólafsdóttir

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 2015, 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 2015, 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, 24 February 2016

KPMG ehf.

Hlynur Sigurðsson

Sæmundur Valdimarsson

Statement of profit or loss and other comprehensive income

	Notes	2015	2014*
Premiums earned		16.596.739	15.958.546
Premiums earned, reinsurers' share		(581.220)	(602.823)
Premiums earned, net of reinsurance	7	16.015.519	15.355.723
Financial income	8	464.222	654.142
Fair value changes of financial assets	8	3.611.893	1.784.816
Investment income		4.076.115	2.438.958
Other income		166.096	163.429
Total income		20.257.730	17.958.110
Claims incurred		(12.732.260)	(12.837.147)
Claims incurred, reinsurers' share		20.055	177.862
Claims incurred, net of reinsurance	9	(12.712.205)	(12.659.285)
Changes in risk premium	24	(66.460)	(29.407)
Operating expenses	10	(4.077.392)	(3.918.914)
Impairment of intangeble assets	15	(1.429.988)	0
Interest expenses		(3.347)	(2.792)
Impairment of account receivables	11	31.499	(28.278)
Total expenses		(18.257.893)	(16.638.677)
Profit before income taxes		1.999.837	1.319.433
Income taxes	12	75.954	(79.077)
Profit for the year		2.075.791	1.240.356
Earnings per share:			
Basic and diluted earnings per share	13	0,87	0,50

* At year end 2015 the Company changed its accounting policy for valuation of technical provision. Comparative figures for the year 2014 have been changed accordingly. Reference is made to note 4 about effects of the change.

The notes on pages 9-35 are an integral part of the financial statements.

Consolidated financial statements of Vátryggingafélag Íslands hf. 2015 5 Amounts are in ISK thousand

Balance Sheet as at 31 December 2015

	Notes	31.12.2015	31.12.2014*	1.1.2014*
Assets				
Operating assets	14	166.263	117.553	126.848
Intangeble assets	15	880.725	2.054.227	978.113
Tax asset	12	360.850	0	0
Financial assets at fair value through profit or loss	16	27.837.680	28.880.089	29.438.641
Financial assets held-to-maturity	16	4.319.826	4.284.837	4.288.871
Bonds and other long-term receivables	16	48.431	93.145	191.067
Investments where investment risk is borne by life-insurance policyholders	17	1.338.485	1.284.696	1.221.236
Accounts receivable	18	5.482.145	5.283.955	4.925.815
Reinsurance assets	19	1.255.208	1.391.507	1.424.764
Other receivables	20	1.756.206	1.540.480	994.059
Cash and cash equivalents	21	1.428.183	1.399.904	2.661.796
Total assets		44.874.001	46.330.394	46.251.209
Equity				
Share capital		2.296.437	2.438.481	2.502.481
Statutory reserve		625.620	625.620	625.620
Retained earnings		14.629.991	16.116.300	17.189.666
Total equity	22	17.552.048	19.180.401	20.317.767
Liabilities				
Deferred tax liability	12	0	1.005.512	1.189.952
Technical provision	24	23.465.959	23.208.048	22.082.343
Technical provision for life-insurance policies where investment risk is borne by the policyholders	17	1.338.485	1.284.696	1.221.236
Accounts payable and other liabilites	25	2.517.509	1.651.737	1.439.911
Total liabilities		27.321.953	27.149.993	25.933.442
Total equity and liabilities		44.874.001	46.330.394	46.251.209

* At year end 2015 the Company changed its accounting policy for valuation of technical provision. Comparative figures for the year 2014 have been changed accordingly. Reference is made to note 4 about effects of the change.

The notes on pages 9-34 are an integral part of the financial statements.

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Statement of Changes in Equity for the year 2015

	Share capital	Statutory reserve	Retained earnings	Total equity
Equity 31.12.2013	2.502.481	625.620	13.496.083	16.624.184
Effects of change in accounting policy			3.693.583	3.693.583
Equity 1.1.2014*	2.502.481	625.620	17.189.666	20.317.767
Total comprehensive income			1.240.356	1.240.356
Treasury shares purchased	(64.000)		(482.781)	(546.782)
Divdends paid, ISK 0.73165 per share			(1.830.940)	(1.830.940)
Equity 31.12.2014*	2.438.481	625.620	16.116.301	19.180.401
Total comprehensive income			2.075.791	2.075.791
Treasury shares purchased	(142.044)		(1.074.155)	(1.216.199)
Divdends paid, ISK 1.03 per share			(2.487.945)	(2.487.945)
Equity 31.12.2015	2.296.437	625.620	14.629.992	17.552.048

* At year end 2015 the Company changed its accounting policy for valuation of technical provision. Comparative figures for the year 2014 have been changed accordingly. Reference is made to note 4 about effects of the change.

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Statement of Cash Flows for the year 2015

	Notes	2015	2014*
Operating activities			
Total comprehensive income for the year		2.075.791	1.240.356
Operating items not affecting cash flows:			
Financial income and expenses		(460.876)	(651.649)
Fair value changes of financial assets		(3.611.893)	(1.784.816)
Gain on sale of operating assets		(1.432)	(10.171)
Other obligations		(6.924)	3.969
Depreciation and amortisation		1.555.582	113.121
Changes in operating assets and liabilities:			
Deferred tax liability / tax asset, (decrease)		(1.366.362)	(184.795)
Financial assets, decrease		3.898.672	1.465.661
Bonds and other receivables, decrease		44.714	97.922
Account receivables, (increase)		(207.510)	(358.140)
Reinsurance assets, decrease		136.298	34.574
Other assets, (increase)		(217.143)	(546.421)
Technical provision, increase		303.179	1.128.655
Accounts payable and other liabilities, increase		1.101.683	680.215
Cash flows from opearating activities before interest and tax		3.243.779	1.228.481
Interest income received		1.094.872	1.387.033
Divedend received		104.138	85.778
Financial expenses paid		(3.347)	(2.792)
Income tax paid		(263.517)	(476.274)
Cash flows from operating activities		4.175.926	2.222.226
Investing activities			
Acquisition of operating assets	14	(100.579)	(36.821)
Sale of operating assets		1.432	10.203
Purchase of software	15	(330.211)	(1.143.151)
Changes in financial assets held-to-maturity		0	16.485
		(429.358)	(1.153.284)
Financing activities			
Purchase of treasury shares		(1.216.198)	(546.781)
Dividends paid		(2.487.945)	(1.830.940)
		(3.704.143)	(2.377.721)
Increase (decrease) in cash and cash equivalents		42.425	(1.308.779)
Cash and cash equivalents at the beginning of the year		1.399.904	2.661.796
Effect of movements in exchange rates on cash held		(14.146)	46.887
Cash and cash equivalents at the end of the year		1.428.183	1.399.904

* At year end 2015 the Company changed its accounting policy for valuation of technical provision. Comparative figures for the year 2014 have been changed accordingly. Reference is made to note 4 about effects of the change.

The notes on pages 9-34 are an integral part of the financial statements.

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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. The Icelandic Financial Supervisory Authorities supervises the operations of the Group according to law no. 87/1988 on the official supervision of financial operations.

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 and Icelandic law on annual accounts. The financial statements were approved and authorised for issue at a board meeting on 24 February 2016. A summary of significant accounting poicies is provided in note 31.

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. Change in account policy

At year end 2015 the Company changed its accounting policy for valuation of technical provision which at year-end is according to the rules of Solvency II. Further information is disclosed in note 24. It is the opinion of the Company's management that the change in valuation of technical provision gives fairer view of the consolidated financial position and performance of the Group. Effects of changes are as follows:

Effects of change in accounting policy

Income statment	Balance before change 2014	Effect of change	Balance after change 2014
Premiums risk net of reinsurance	15.420.013	(64.290)	15.355.723
Claims incurred, net of reinsurance	(12.118.691)	(540.594)	(12.659.285)
Changes in risk premium	0	(29.407)	(29.407)
Income tax	(243.705)	164.628	(79.077)
Total	3.057.617	(469.663)	2.587.954

Balance sheet	Balance before change 2014	Effect of change	Balance after change 2014
Tax asset	115.402	(115.402)	0
Reinsurance assets	1.426.354	(1.590)	1.424.764
Other assets	44.826.445	0	44.826.445
Total assets	46.368.201	(116.992)	46.251.209
Retained earnings	13.496.083	3.693.583	17.189.666
Other equity	3.128.101	0	3.128.101
Total equity	16.624.184	3.693.583	20.317.767
Technical provision	27.082.870	(5.000.527)	22.082.343
Deferred tax liability	0	1.189.952	1.189.952
Other liabilities	2.661.147	0	2.661.147
Total liabilities	29.744.017	(3.810.575)	25.933.442

Comparative figures for the year 2014 have been changed according to new accounting policy on valuation of technical provision. Following change in technical provision, financial income for insurance operation for the year 2014 have been recalculated.

Notes

5. 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 notes no. 16 and 26.2
- intangible assets, see note no. 15
- impairment of account receivables, see note no. 11

6. Operating segments

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

The operating segments´results for the year 2015 are specified as follows:

	Casuality insurance	Life insurance	Financial activities	Total
Premiums earned	15.585.809	1.010.929	0	16.596.739
Premiums earned, reinsurers´ share	(417.217)	(164.003)	0	(581.220)
Investment income	1.111.795	33.418	2.930.902	4.076.115
Other income	166.096	0	0	166.096
Total income	16.446.483	880.344	2.930.902	20.257.730
Claims incurred	(12.454.784)	(277.476)	0	(12.732.260)
Claims incurred, reinsurers' share	(79.673)	99.727	0	20.055
Change in risk premium	(105.703)	39.243	0	(66.460)
Operating expenses	(3.284.335)	(276.134)	(516.923)	(4.077.392)
Impairment of intangeble assets	(1.429.988)	0	0	(1.429.988)
Interest expenses	0	0	(3.347)	(3.347)
Impairment of account receivables	0	0	31.499	31.499
Operating segment result	(907.999)	465.705	2.442.131	1.999.837
Income taxes				75.954
Profit for the year				2.075.791

Depreciation and amortisation in the amount of ISK 67 million and ISK 2 million are included in the operating results of casuality insurance and financial activities, respectively. Investments of the operating segment of casuality insurance amounted to ISK 431 million. Impairment of software amounting to ISK 1,430 million is recognised among causality insurance.

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Notes

6. Operating segments (contd.)

Asssets and liabilities of the operating segments as at 31 December 2015 are specified as follows:

	Casuality insurance	Life insurance	Financial activities	Total
Assets				
Investment securities	28.004.236	1.245.107	2.956.593	32.205.936
Investments where investment risk is borne by the life-insurance policyholders	0	1.338.485	0	1.338.485
Reinsurance assets	1.122.942	121.647	0	1.244.589
Cash and cash equivalents	1.120.029	308.154	0	1.428.183
Accounts recivable and other assets	3.627.694	0	5.029.114	8.656.808
Operating segment assets	33.874.901	3.013.393	7.985.707	44.874.001
Liabilities				
Technical provision	22.733.855	732.105	0	23.465.959
Technical provision for life-insurance policies where investment risk is borne by the policyholders	0	1.338.485	0	1.338.485
Other liabilities	2.382.032	135.477	0	2.517.509
Operating segment liabilities	25.115.887	2.206.067	0	27.321.953

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

	Casuality insurance	Life insurance	Financial activities	Total
Premiums earned	15.034.515	924.031	0	15.958.545
Premiums earned, reinsurers' share	(447.150)	(155.673)	0	(602.823)
Investment income	987.218	33.380	1.418.360	2.438.958
Other income	163.429	0	0	163.429
Total income	15.738.013	801.738	1.418.360	17.958.110
Claims incurred	(12.492.656)	(344.492)	0	(12.837.147)
Claims incurred, reinsurers' share	29.661	148.201	0	177.862
Change in risk premium	(36.935)	7.527	0	(29.407)
Operating expenses	(3.161.703)	(256.820)	(500.392)	(3.918.914)
Interest expenses	0	0	(2.792)	(2.792)
Impairment of receivables	0	0	(28.278)	(28.278)
Operating segment result	76.380	356.156	886.898	1.319.434
Income taxes				(79.077)
Profit for the year				1.240.357

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

Asssets and liabilities of the operating segments as at 31 December 2014 are specified as follow:

	Casuality insurance	Life insurance	Financial activities	Total
Assets				
Investment securities	30.463.687	1.917.159	877.225	33.258.071
Investments where investment risk is borne by the life-insurance policyholders	0	1.284.696	0	1.284.696
Reinsurance assets	1.264.138	122.791	0	1.386.928
Cash and cash equivalents	1.261.082	138.823	0	1.399.905
Accounts recivable and other assets	3.519.149	0	5.481.644	9.000.793
Operating segment assets	36.508.056	3.463.469	6.358.869	46.330.393
Liabilities				
Technical provision	22.410.524	797.524	0	23.208.048
Technical provision for life-insurance policies where investment risk is borne by the policyholders	0	1.284.696	0	1.284.696
Other liabilities	2.576.801	80.449	0	2.657.250
Operating segment liabilities	24.987.325	2.162.668	0	27.149.993

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Notes

6. Operating segments (contd.)

Insurance activities consist of casualty and life insurance, and are specified as follows for the year 2015:

	Property insurance	Marine insurance	Mandatory vehicle insurance	Other vehicle insurance	General liability insurance	Accident and health insurance
Premiums earned	3.714.075	425.865	5.308.057	2.239.505	912.766	1.745.813
Claimes incurred	(2.578.516)	(275.783)	(4.723.163)	(2.056.056)	(235.694)	(1.604.904)
Change in risk premium	634	(14.490)	(19.449)	(8.281)	(31.499)	(18.793)
Operating expenses	(822.518)	(104.516)	(1.080.470)	(445.361)	(224.743)	(367.709)
Reinsurance cost, net	(180.420)	(68.164)	(29.301)	(1.880)	(178.440)	(37.470)
Investment income	122.476	10.467	502.176	65.609	133.080	174.650
Other income	81.615	4.566	66.221	6.479	2.470	4.745
Profit (loss)	337.347	(22.055)	24.072	(199.984)	377.940	(103.668)

	Life-insurance	Health and critical illness insurance	Total direct insurance	Reinsurance	Total
Premiums earned	556.379	454.550	15.357.011	1.239.728	16.596.739
Claimes incurred	(88.443)	(189.033)	(11.751.593)	(980.667)	(12.732.260)
Change in risk premium	13.046	26.197	(52.634)	(13.826)	(66.460)
Operating expenses	(155.295)	(120.839)	(3.321.449)	(239.020)	(3.560.469)
Reinsurance cost, net	(41.299)	(22.977)	(559.951)	(1.215)	(561.166)
Investment income	15.663	17.753	1.041.876	103.337	1.145.213
Other income	0	0	166.096	0	166.096
Profit	300.052	165.651	878.356	108.337	987.693
Imperment of intangeble assets					(1.429.988)
Loss					(442.294)

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	3.729.132	413.095	5.055.766	2.188.699	878.111	1.575.378
Claimes incurred	(2.590.870)	(256.580)	(4.982.096)	(1.687.397)	(801.076)	(1.420.903)
Change in risk premium	(37.284)	20.196	(11.918)	(2.476)	(1.944)	(5.194)
Operating expenses	(811.977)	(89.687)	(1.082.911)	(471.657)	(188.981)	(327.894)
Reinsurance cost, net	(191.849)	(73.590)	(15.995)	(1.732)	(104.473)	(28.887)
Investment income	112.612	9.669	440.201	57.827	127.049	153.592
Other income	50.747	3.599	109.083	0	0	0
Profit (loss)	260.511	26.702	(487.870)	83.264	(91.314)	(53.908)

	Life-insurance	Health and critical illness insurance	Total direct insurance	Reinsurance	Total
Premiums earned	529.401	394.630	14.764.211	1.194.335	15.958.546
Claimes incurred	(179.595)	(164.897)	(12.083.413)	(753.734)	(12.837.147)
Change in risk premium	2.243	5.285	(31.092)	1.685	(29.407)
Operating expenses	(149.323)	(107.534)	(3.229.963)	(188.559)	(3.418.522)
Reinsurance cost, net	14.423	(21.837)	(423.940)	(1.021)	(424.961)
Investment income	14.812	18.568	934.330	86.268	1.020.598
Other income	0	0	163.429	0	163.429
Profit (loss)	231.961	124.215	93.562	338.974	432.535

7. Premiums earned, net of reinsurance

	2015	2014
Premiums written	17.038.638	16.108.462
Premiums written, reinsurers' share	(592.894)	(607.518)
Change in unearned premiums	(441.899)	(149.916)
Change in unearned premiums, reinsurers' share	11.674	4.696
Premiums earned, net of reinsurance	16.015.519	15.355.723

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8. Financial income

	2015	2014
Interest income on bank accounts	62.563	83.626
Interest income on financial assets held-to-maturity	195.310	154.258
Other interest income	282.886	261.678
Foreign currency exchange differences	(76.537)	154.580
Financial income	464.222	654.142
Fair value change of shares	2.102.601	656.351
Fair value change of other financial investments	1.509.292	1.128.465
Fair value change of financial investments	3.611.893	1.784.816

Fair value change of financial investments includes dividend income amounting to ISK 104 (2014:86) million.

9. Claims incurred, net of reinsurance

	2015	2014
Claims paid	12.982.709	11.887.874
Claims paid, reinsurers' share	(169.882)	(179.725)
Change in claims provision	(250.449)	949.273
Change in claims provision, reinsurers' share	149.827	1.863
Claims incurred, net of reinsurance	12.712.205	12.659.285

10. Operating expenses

	2015	2014
Administrative expenses	1.902.478	1.826.816
Salaries and salary-related expenses	2.061.620	1.978.804
Depreciation and amortisation	113.294	113.294
Operating expenses	4.077.392	3.918.914

Salaries and salary-related expenses are specified as follows:

	2015	2014
Salaries	1.646.533	1.572.298
Contribution to pension funds	164.009	158.577
Other salary-related expenses	152.615	151.406
Special financial activities tax on salaries	98.463	96.523
Salaries and salary-related expenses	2.061.620	1.978.804
Number of employees in full-time equivalent units	191	195

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

	2015		2014	
	Saleries and benifits	Contributes to pension fund	Saleries and benifits	Contributes to pension fund
Herdís Dröfn Fjeldsted, chairman of the board of VÍS *	1.050	84	0	0
Jostein Sörvoll, board member	550	44	0	0
Bjarni Brynjólfsson, board member *	3.470	278	0	0
Guðmundur Þórðarson, board member	550	44	0	0
Helga Jónsdóttir, chairman of the board of Lífís, board member VÍS *	7.020	562	5.110	409
Davíð Guðmundsson, board member of Lífís	1.740	139	500	40
Margrét V. Bjarnadóttir, board member of Lífís	1.500	120	500	40
Friðrik Hallbjörn Karlsson, former chairman of the board of VÍS and Lífís *	1.500	120	7.150	572
Guðrún Þorgeirsdóttir, former cheirman of the Lífís board and board member of VÍS *	5.370	430	5.110	409
Steinar Þór Guðgeirsson, former board member of VÍS and Lífís	1.650	132	3.750	300
Ásta Dís Óladóttir, former board member of VÍS and Lífís *	3.090	247	4.910	393
Vignir Rafn Gíslason, chairman of the audit committee of VÍS and Lífís	2.880	231	2.640	211
Alternative board members of VÍS and Lífís	1.817	145	250	20
Sigrún Ragna Ólafsdóttir, CEO of VÍS and Lífís	39.367	5.450	36.343	4.994
Agnar Óskarsson, Managing Director, Claims	22.601	2.653	20.215	2.368
Anna Rós Ívarsdóttir, Managing Director, Human Resources	22.417	2.638	19.948	2.342
Auður Björk Guðmundsdóttir, Managing Director, Commercial	22.564	2.704	20.182	2.418
Friðrik Bragason, Managing Director, Private	22.577	2.653	20.194	2.368
Guðmar Guðmundsson, CFO	22.578	2.631	20.183	2.190
Þorvaldur Jacobsen, Managing Director, Corporate Development	22.907	2.738	20.514	2.320
Tryggvi Guðbrandsson, head of investments	18.453	1.800	18.113	1.769
	225.651	25.843	205.612	23.163

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10. Operating expenses (contd.)

* Payments for committee work for audit- and/or pay remuncreration 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 former board member 188,962 shares, Guðrún Þorgeirsdóttir former board member 94,340 shares and Helga Jónsdóttir 62,893 shares, Jortein Sötvoll 1,623,740 shares, Bjarni Brynjólfsson 178,000 shares and Guðmundur Þórðarson 123,082,711 shares. Sigrún Ragna Ólafsdóttir held 5,421,447 shares og 6 directors held 1,106,303 shares in total.

Shares of spouses and financial independent children's are considered as shares of board members, shares held by companies in majority ownership by board members and their spouses are also considered as shares of board members.

11. Impairment of account receivables

	2015	2014
Account receivables written off as uncollectible	54.951	73.578
Impairment, change	(86.450)	(45.300)
Impairment of account receivables	(31.499)	28.278

12. Income taxes

12.1 Calculated income taxes

Income taxes are calculated and recognised in the financial statements.

Effective tax rate:

	2015		2014	
	Amount	%	Amount	%
Profit before income taxes	1.999.837		1.319.433	
Income tax according to domestic tax rate	399.967	20,0%	263.887	20,0%
Special financial activity tax	(29.976)	-1,5%	(36.392)	-2,8%
Fair value changes of financial assets	(441.347)	-22,1%	(148.426)	-11,2%
Difference in estimated tax and recognized tax	(4.606)	-0,2%	0	0,0%
Other items	8	0,0%	8	0,0%
Income taxes according to the statement of profit or loss	(75.954)	-3,8%	79.077	6,0%

12.2 Deferred taxes

Tax asset (deferred tax liability) is specified as follows:

	2015	2014
Deferred tax liability at the beginning of the year	(1.005.512)	(1.189.952)
Tax expense of the year	75.954	(79.077)
Current taxes	1.295.014	263.872
Other items	(4.606)	(355)
Tax asset (deferred tax liability) at the end of the year	360.850	(1.005.512)

The most signifcant tax asset (deferred tax liability) is specified as follows:	2015	2014
Operating assets	276.455	(9.882)
Customer relationships	(67.616)	(78.885)
Financial assets	152.112	228.545
Technical provision	0	(1.141.081)
Other items	(100)	(4.209)
Tax asset at the end of the year	360.850	(1.005.512)

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13. Earnings per share

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

	2015	2014
Profit for the year attributable to shareholders of the Parent Company	2.075.791	1.240.356
Weighted average number of outstanding shares	2.384.812	2.483.258
Earnings per share	0,87	0,50

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 and land	Computer, equipment and vehicles	Total
Cost			
Balance as at 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)
Balance 1.1. 2015	71.669	278.673	350.342
Additions during the year	0	100.579	100.579
Sold and disposed of during the year	0	(2.900)	(2.900)
Balance 31.12. 2015	71.669	376.352	448.021
Depreciation			
Depreciated 1.1 2014	40.316	419.296	459.612
Depreciation of the year	1.701	44.383	46.084
Sold and disposed of during the year	0	(272.907)	(272.907)
Depreciated 1.1. 2015	42.017	190.772	232.789
Depreciation of the year	1.701	50.168	51.869
Sold and disposed of during the year	0	(2.900)	(2.900)
Depreciated 31.12. 2015	43.718	238.040	281.758
Carrying amount			
Carrying amount at beginning of the year 2014	31.353	95.494	126.847
Carrying amount at beginning of the year 2015	29.651	87.901	117.553
Carrying amount at end of the year 2015	27.951	138.312	166.263
Depreciation rates	3%	10-33%	

Tax value of buildings at year end 2015 amounted to ISK 64 million. Asset value for fire insurance of buildings amounted to ISK 182 million at year end 2015.

Asset value for fire insurance for operating assets amounted to ISK 442 million at year end 2015

15. Intangeble assets

	Goodwill	Customer relationship	Software	Total
Cost				
Balance as at 1.1. 2014	474.599	563.467	96.683	1.134.750
Additions during the year	0	0	1.143.151	1.143.151
Balance 1.1. 2015	474.599	563.467	1.239.834	2.277.901
Additions during the year	0	0	330.211	330.211
Balance 31.12. 2015	474.599	563.467	1.570.046	2.608.113
Amortisation				
Accumulated amortisation 1.1.2014	0	112.694	43.943	156.637
Amortisation of the year	0	56.347	10.690	67.037
Accumulated amortisation 1.1.2015	0	169.041	54.633	223.674
Amortisation of the year	0	56.347	17.379	73.726
Impairment losses	0	0	1.429.988	1.429.988
Accumulated amortisation 12.31.2015	0	225.388	1.502.000	1.727.388
Carrying amount				
Carrying amount at beginning of the year 2014	474.599	450.773	52.740	978.113
Carrying amount at beginning of the year 2015	474.599	394.426	1.185.201	2.054.227
Carrying amount at end of the year 2015	474.599	338.079	68.047	880.725
Depreciation rates	0%	10%	10-33%	

The Group´s goodwill is due to VÍS's acquisition of Lífís in 2012. At year-end an annual impairment test was carried out, based on discounted future cash flows. According to the test there is no need to reduce the carrying amount of the goodwill.

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15. Intangeble assets (condt.)

At year-end the Company's investment in a new software system was tested for impairment. The reason, among other things, is the fact that the instillation period has been longer than estunated and cost for the software has been considerably higher than expected. Expectations are that the operating advantage from the software is expected, compared to the current software, but not to the extent expected according to original plans. The Company has in recent years worked on extensive improvements on its internal processes to improve efficiency at the same time as the instalment of the new software. As a result of the impairment test the software was fully amortised. The amortisation amounted to ISK 1,430 million.

The most important inputs were that future nominal increase of income will be 3% and required return on equity is 10.95%.

16. Investment securities

Financial assets at fair value through profit or loss are specified as follows:	2015	2014
Shares in other companies		
Listed on domestic stock exchange	5.534.878	2.942.316
Listed on foreign stock exchanges	778.822	630.822
Other companies	2.924.798	3.381.239
	9.238.498	6.954.377
Other securities		
Government securities, indexd	5.575.443	7.929.764
Government securities, non-indexd	2.784.738	4.866.048
Other bonds	6.856.591	6.098.377
Bond funds	1.173.440	537.438
Equtity funds	593.521	693.068
Alternative investment funds	1.615.448	1.801.018
	18.599.182	21.925.712
Total financial assets at fair value	27.837.680	28.880.089
Financial assets held-to-maturity		
Listed government securities *	4.319.826	4.284.837
Bonds and other long-term receivables are specified as follows:		
Loans pledged by real estate	48.431	92.386
Loans pledged by movable properties	0	255
Other bonds	0	503
	48.431	93.145
Investment securities	32.205.936	33.258.071
* Estimated fair value of financial assets held-to-maturity	4.348.275	4.100.148

17. Investments where investment risk is borne by the life-insurance policyholders

Lífís 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.

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18. Account receivables

	2015	2014
Receivables due to domestic operations	4.038.943	3.764.285
Receivables due to foreign operations	1.452.511	1.508.164
Other receivables	(9.309)	11.506
Account receivables	5.482.145	5.283.955

Changes in allowance of account receivables

Balance at the beginning of the year	224.890	270.190
Impairment of account receivables	(31.499)	28.278
Account receivables written-off	(54.951)	(73.578)
Balance at the end of the year	138.440	224.890

19. Reinsurance assets

	2015	2014
Reinsurers' share in unearned permiums	102.599	90.925
Reinsurers' share in claims provision	1.141.990	1.295.730
Claims on reinsurers	10.620	4.851
Reinsurance assets	1.255.208	1.391.507

20. Other receivables

	2015	2014
Prepaid taxes	328.798	319.273
Cash in escrow accounts due to foreign operations	1.032.837	949.752
Restricted cash due to foreign operations	279.783	254.053
Accrued interest income and prepaid expenses	114.788	17.403
Other receivables	1.756.206	1.540.480

21. Cash and cash equivalents

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

	2015	2014
Cash	2.260	1.341
Deposits in Icelandic Krona	891.571	1.070.022
Deposits in foreign currencies	534.352	328.541
Cash and cash equivalents	1.428.183	1.399.904

22. Share capital

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

	2015		2014	
Share capital according to the Company´s article of association	2.438.481	100%	2.502.757	100%
Treasury shares	(142.044)	(5,83%)	(64.277)	(2,57%)
Share capital according to the financial statements	2.296.437	94,17%	2.438.480	97,43%

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.

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23. Solvency

According to the Act on Insurance Activities, calculated minimun solvency of the Group was ISK 3,561 million at year-end 2015, calculated solvency ISK 11,716 million and solvency ratio 3.0. Calculated minimum solvency for the Group for the year 2014 was ISK 3,665 million, calculated solvency for the Group ISK 11,391 million and solvency ratio 3.1. The difference between the calculated solvency and book value of equity is as follows:

Solvency of the Group:

	2015	2014
Equity according to the balance sheet	17.552.048	15.956.483
Goodwill and other intangible assets	(880.725)	(2.054.227)
Effects of present value of claims provision	(943.984)	0
Intra-group financing	(11.506)	(11.506)
Planned dividend payments	(5.000.000)	(2.500.000)
Calculated solvency	10.715.833	11.390.750
Calculated minimum solvency of the Group	3.560.598	3.665.161
Solvency ratio	3,01	3,11

Solvency of the Parent Company:

	2015	2014
Calculated solvency of the Parent Company	12.289.380	12.421.036
Calculated minimum solvency of the Parent Company	3.035.901	3.096.989
Solvency ratio of the Parent Company	4,05	4,01

Solvency for the year 2014 is the same as presented in the Financial Statements for 2014

Solvency II:

Solvency according to Solvency II for the Company is based on its equity, net of intangible assets, expected dividend payment and repurchase of share capital. The Board proposes a dividend payment of ISK 5,000 million. Solvency according to the Solvency II standard formula is ISK 11.7 billion and Solvency II solvency ratio is 1.23. Estimated Solvency II solvency ratio at year end 2015 after issue of subordinated bonds and dividend payment is 1.55.

	2015	2014
Equity according to Balance Sheet	17.552.048	19.180.400
Intangible assets	(880.725)	(2.054.227)
Proposed dividend payment	(5.000.000)	(2.500.000)
Solvency	11.671.323	14.626.173
Solvency requierment	9.455.248	9.081.828
Solvency ratio	1,23	1,61

24. Technical provision

Technical provision at year-end 2015 is determined as the best estimate according to Solvency II. Technical provision at year-end 2014 has been recalculated according to Solvency regulation.

	2015	2014
Technical povision (total):		
Claims reported	13.839.935	14.123.044
Claims incurred but not reported	2.535.233	2.502.571
Total claims provision	16.375.168	16.625.615
Unearned premiums	5.847.030	5.405.130
Risk premium	1.243.762	1.177.302
Total technical provision	23.465.959	23.208.048
Reinsurers´ share:		
Claims reported	1.088.201	1.241.977
Claims incurred but not reported	53.789	53.753
Claims provision	1.141.990	1.295.730
Unearned premiums	102.599	90.924
Total reinsurers´ share	1.244.589	1.386.654

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24. Technical provision (condt.)

Technical provision, net of reinsurance:

Claims reported	12.751.734	12.881.067
Claims incurred but not reported	2.481.444	2.448.818
Claims provision	15.233.178	15.329.885
Unearned premiums	5.744.431	5.314.206
Risk premium	1.243.762	1.177.302
Total technical provision, net of reinsurance	22.221.371	21.821.393

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

Claims provision development of prior years during the year 2015

	Total	Reinsurers' share	Own share
Claims provision from prior years	16.625.615	(1.291.818)	15.333.797
Paid due to claims from prior years	(7.124.444)	54.362	(7.070.082)
New claims due to claims for prior year	(10.354.376)	1.074.632	(9.279.744)
Financial income net of unwinding of present value of claims	886.715	0	886.715
Fair value change due to claims from prior years	33.510	(162.824)	(129.314)

Development of claims provision due to prior years was positive during the year and amounted to ISK 34 million or 0.2% of claims provision as at the end of prior year. Development of claims provision net of reinsurance was negative during the year and amounted to ISK 129 million or 0.8% of claims provision as at the end of prior year.

Claims during the year 2015

	Total	Reinsurers' share	Own share
Paid due to claims incurred during the year	5.784.850	(115.521)	5.669.329
Claims provision due to claims incurred during the year	6.020.718	(67.358)	5.953.360
Total claims incurred during the year	11.805.568	(182.879)	11.622.689

Claims provision due to claims incurred during the year is the present value of the best estimate according to the Solvency II regulation.

Financial income from insurance operation in 2015

Calculated financial income from insurance operation	1.145.213
Financial income net of unwinding of present value of claims provision	(886.715)
Financial income from insurance operation due to claims incurred during the year	258.498

Financial income from insurance operation is calculated as weighted average required rate of return for the year according to yield curve from regulator, 5.2% on own technical provision at year-end. Financial income net of unwinding of present value of prior years claims are calculated as interest on cash flows of claims from prior years with additional interest on average claims provision for the year due to claims from prior years.

Claims provision development of prior years during the year 2014

	Total	Reinsurers' share	Own share
Claims provision from prior year	15.680.256	(1.297.567)	14.382.689
Paid due to claims from prior years	(6.585.739)	49.040	(6.536.699)
New claims due to claims for prior year	(10.186.243)	1.199.629	(8.986.614)
Financial income net of unwinding of present value of claim provison	843.758	0	843.758
Fair value change due to claims from prior years	(247.968)	(48.898)	(296.866)

Development of claims provision due to prior years was negative during the year and amounted to ISK 248 million, or 1.6% of the claims provision as at the end of prior year. Development of claims provision net of reinsurance was negative during the year and amounted to ISK 297 million or 2.1% of the claims provision as of the end of the prior year.

Claims during the year 2014

	Total	Reinsurers' share	Own share
Paid due to claims incurred during the year	5.302.131	(121.854)	5.180.277
Claims provision due to claims incurred during the yar	6.439.373	(92.188)	6.347.185
Total claims incurred during the year	11.741.504	(214.042)	11.527.462

Claims provision due to claims incurred during the year is the present value of the best estimate according to the Solvency II regulation.

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24. Technical provision (contd.)

Financial income from insurance operation

Calculated financial income from insurance operation	1.020.598
Financial income net of unwinding of present value of claims provision	(843.758)
Financial income from insurance operation due to claims incurred during the year	176.840

Financial income from insurance operation is calculated as weighted average required rate of return for the year according to yield curves from regulator, being 4.8% on own technical provision at year-end. Financial income net of unwinding of present value of prior years claims are calculated as interest on cash flows of claims from prior years with additional interest on average claims provision for the year due to claims from prior years.

25. Account payable and other liabilities

	2015	2014
Account payable	513.872	697.372
Income taxes	1.295.014	263.872
Liability from reinsurance operation	29.121	56.346
Other liabilities	679.502	634.147
Account payble and other liabilites	2.517.509	1.651.737

26. Financial instruments

26.1 Classification of financial instruments

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

31 December 2015 **Financial assets**	Financial assets at fair value	Loans and receivables	Financial assets held-to-maturity	Total	Fair value
Securities	27.837.680		4.319.826	32.157.505	32.185.955
Accounts and other receivables		5.974.161		5.974.161	
Cash in escrow accounts and restricted cash		1.312.620		1.312.620	
Cash and cash equivalents		1.428.183		1.428.183	
Total financial assets	27.837.680	8.714.964	4.319.826	40.872.470	
31 December 2014					
Financial assets					
Securities	28.880.089		4.284.837	33.164.927	32.980.237
Accounts and other receivables		5.713.775		5.713.775	
Cash in escrow accounts and restricted cash		1.203.805		1.203.805	
Cash and cash equivalents		1.399.904		1.399.904	
Total financial assets	28.880.089	8.317.484	4.284.837	41.482.411	

The carrying amount of other financial assets reflects their fair value.

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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 2015**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value	21.668.780	428.344	5.740.556	27.837.680
Fair value of financial assets held-to-maturity	1.769.340	2.578.935	0	4.348.275
Financial assets total	23.438.120	3.007.279	5.740.556	32.185.955

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
Financial assets total	23.921.760	2.863.682	6.194.794	32.980.237

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 is determined by observing recent transactions between unrelated parties or offer prices from unrelated parites. 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.

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

	2015	2014
Balance at 1.1.2015	6.194.794	4.132.236
Purchased	872.746	2.051.893
Sold / Repayments	(904.930)	(799.203)
Raclassification to level 1	(1.220.684)	0
Raclassification from level 1 and 2	0	198.960
Interest, fair value change	798.630	610.908
Balance at 31.12.2015	5.740.556	6.194.794

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Notes

27. Risk Management

27.1 Basis of risk management

In the past few years insurance companies in Iceland and in the European Economic Area have been preparing for a new legislation on insurance operation, Solvency II. The legislation took effect in Europe, excluding Iceland, 1 January 2016. The effective date in Iceland is estimated to be 1 March 2016. Among other things, the new legalisation calls for new methods in calculation of solvency. Calculation of required solvency will be risk based and all primary risk factors of insurance companies are included. The model (standard formula of Solvency II), upon which the calculation are based, assesses risk factors with 99.5% value at risk, which means that there is 0.5% chance of the companies not being able to meet their obligations in the next 12 months or in one year of every 200.

Risk management is one of the key operations of an insurance company according to the Solvency II legislation. Risk management of VÍS executes the clauses on management of risk. The Group has, in accordance with the management of risk, prepared policy on compatible risk management. The policy has been agreed by the Board of Directors and applies both to the Parent Company and its subsidiary, Lífís. The policy includes the organization and proceedings of risk management, specification of risk factors, reporting and information and duties of employees to promote the policy. The policy includes the definition of market risk, insurance risk and operational risk as key risk factors in the operation. Additionally, concentration risk and counterparty risk are important risk factors. The following notes include information on these risk factors.

27.2 Risk- and solvency assessment

According to Solvency II insurance companies shall perform its own risk- and solvency assessment (ORSA) where capital requirements shall be assessed based on risk profile, risk tolerance and its business plan. ORSA is in fact all the factors and methods which are useful to define, detect, monitor and clarify the risk which insurance companies are exposed to and arise from operation for long-term and short-term to meet the required equity to fulfil its solvency requirements at each time, even if it will face crisis. The Group has established a policy of own risk- and solvency assessment for ORSA which has been approved by the Board. The outcomes of the methods give the Board and management information about risk profile and capital requirements of the Group based on specified presumption. The Board and management have the outcome as a consideration for all strategic decisions for the Group, in preparing business and budget planning, treasury management and development of new products.

27.3 Market risk

Market risk is the risk of loss or unforeseen change in financial position, which arise from fluctation of market value of assets, provisions and financial instruments.

Strategy for controlling market risk is done with revision of investing strategy and structure of assets in portfolio. The strategy is based on the risk appetite of the Group, expectation of return from assets and historical analyses on return. Current portfolio, environment and restriction are taken in to account. With systematic management of the portfolio it is possible to even fluctuation and minimise risk related to change in market value of the Group's assets.

Primary market risk which are specially looked into:

· Interest rate risk
· Price risk of equity instruments
· Inflation risk
· Foreign exchange rate risk
· Liquidty risk

Notes

27.4 Interest rate risk

Interest rate risk is risk of loss from fluctuations in fair value of financial instruments from change in interest (required rate of return). Duration of portfolio is in most cases not the same as duration of technical provision and therefor interest rate risk can occur in the operation of the Group.

Sensitivity analysis

The following table discloses the effect that 50 and 100 bp increase 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 interest and is based on the presumption that all other variables remain constant. The sensitivity is presented post-tax and 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 directy 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.

	31.12.2015		31.12.2014	
	50 bp	100 bp	50 bp	100 bp
Inpact on profit or loss and equity	53.931	107.862	58.610	117.220

27.5 Price risk of equity securities and other price risk of market securities

Price risk is the risk from loss because of changes in value of equity securities.

The Group invests in shares, both to maximize its return and to spread risk to even fluctuations in its portfolio. To minimize risk from equity instruments of the Group these specialized limits are set in policy for investments:

· Maximum weight of shares in in the Group's portfolios.
· Setting an upper limit for listed and unlisted domestic shares.
· Maximum exposure to individual industries.

The Group also sets limits for investments in share funds to ensure spread of risk.

The Group also invests in market debt securities to spread risk and even fluctuations which takes aim of the Group policy on investments.

	31.12.2015	31.12.2014
Shares and share funds at fair value through profit or loss	10.413.517	8.364.210
Debt instruments and other securities at fair value through profit or loss	17.424.163	20.515.880

The effect of 5% and 10% increase in 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.

	31.12.2015		31.12.2014	
	5%	10%	5%	10%
Shares - impact on profit or loss	520.676	1.041.352	418.211	8.364.210
Debt securities - impact on profit or loss	696.967	1.393.933	820.635	1.641.270

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27.6 Inflation risk

Inflation risk is the risk of loss which can arise from fluctuations in inflation on indexing balance. Indexing balance is the difference between indexed assets and liabilities. Big part of technical provision is inherently indexed and part of the Groups assets are indexed. The risk is that the portfolio of the Group is not correlated with changes in indexes in the same way as technical provision.

In investment policy minimum limits are set for indexed assets. The Group aims to invest in securities which are indexed or have the qualitative to increase in real value.

27.7 Foreign exchange rate risk

Foreign exchange rate risk is the risk of loss from fluctuations in exchange rates of foreign currencies. It arises if there is a mismatch in position of assets and liabilities in foreign currencies. Part of the Groups securities and technical provision are in foreign currencies. When limits are set for weight of assets in currencies in investment policies the foreign exchange rate risk of the Group is taken into the account.

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 mid-exchange rate according to Íslandsbanki.

	Year-end exchange rates		**Average exchange rates**		**Annual volatility**
Currency	2015	2014	2015	2014	2015
USD	130,14	127,03	131,85	116,75	2,4%
EUR	141,30	154,60	146,30	154,86	-8,6%
GBP	191,87	197,37	201,58	192,17	-2,8%
DKK	18,93	20,77	19,62	20,77	-8,9%
NOK	14,69	17,08	16,37	18,54	-14,0%
SEK	15,41	16,23	15,64	17,03	-5,1%

Foreign exchange rate risk as at 31.12.2015	Assets	Liabilities	Net position
USD	2.887.506	1.225.823	1.661.683
EUR	970.990	325.304	645.686
GBP	1.504.047	559.942	944.105
DKK	26.485	0	26.485
NOK	14.677	0	14.677
SEK	1.056	0	1.056
Total	5.404.761	2.111.069	3.293.692

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
Total	4.977.759	2.312.697	2.665.062

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27.7 Foreign exchange rate risk (contd.)

Sensitivity analysis

The following tabe discloses the effect of 5% and 10% strengthening of ISK to the respective foreign courrencies 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 sensitiviy 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.

Impact on profit or loss and equity

	31.12.2015		31.12.2014	
	5%	10%	5%	10%
USD	66.467	132.935	47.203	94.406
EUR	25.827	51.655	24.878	49.756
GBP	37.764	75.528	32.232	64.463
DKK	1.059	2.119	1.567	3.135
NOK	587	1.174	678	1.356
SEK	42	84	44	88

Weakening of ISK to the above foreign currencies would have decreased profit and equity.

27.8 Counterparty risk

Operation of the Group is based on two foundations, insurance- and financial operation and counterparty risk can be found in both.

Primary counterparty risk are:

· Risk of lowering of spread risk.
· Risk that counterparty can´t comply with the obligation that contracts specifies.

The main source counterparty risk are:

· Primary insurance.
· Reinsurance.
· Lending.
· Investments in debt securities.
· Bank deposits.

The Group monitors its counterparty risk.

Counterparty risk is as follows:

	2015	2014
Securities, credit rating BBB +	5.557.880	0
Securities, credit rating BBB -	4.101.214	6.394.262
Securities, credit rating BB +	0	3.089.744
Securities, credit rating BB	0	364.121
Securities, credit rating BB -	2.494.611	6.037.429
Securities, credit rating BB +	0	70.538
Financial assets held-to-maturity BBB +	2.745.796	0
Financial assets held-to-maturity BBB -	0	2.700.199
Financial assets held-to-maturity BB -	1.574.029	1.584.639
Other market securities	5.270.458	4.559.785
Collateralised loans and other loans	48.431	93.145
Account receivables	5.482.145	5.283.955
Claims on reinsurers	10.620	4.851
Other receivables	1.756.206	1.540.480
Cash and cash equivalents	1.428.183	1.399.904
	30.469.572	33.123.052

The Group´s maximum exposure to counterparty risk corresponds to the carrying amounts disclosed above.

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27.9 Liquidity risk

Liquidity risk is the risk that the Group will not have enough liquid assets or not being able to sell assets in time and therefore encounter difficulty in meeting its financial obligations when due.

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. The Group's policy on liquid assets is to have minimum cash and cash equivalents at each time and that large part of assets can be sold immediately.

Expected cash flows of financial liabilities is specified as follows:

	Within one year	2017	2018 +	Total
31.12.2015				
Claims provision	6.265.515	2.902.722	7.206.931	16.375.168
Accounts payable and other short-term liabilities	1.193.374	0	0	1.193.374

	Within one year	2016	2017 +	Total
31.12.2014				
Claims provision	6.417.154	2.887.663	7.320.798	16.625.615
Accounts payable and other short-term liabilities	1.331.519	0	0	1.331.519

27.10 Insurance risk

Insurance risk is the risk of premiums collected from policyholders are not sufficient to meet obligations arsing from underwriting insurance policies or evaluation of technical provision.

The main elements of insurance risk are:

· Contract risk
· Sales- and risk valuation.
· Product management.
· Product development and new products.
· Insurance liability.
· Handling and settlement of claims.
· Reinsurance protection.

Insurance classes - premiums earned	2015		2014	
Property insurance	3.714.075	22,4%	3.729.132	23,4%
Marine and cargo insurance	425.865	2,6%	413.095	2,6%
Mandatory vehicle insurance	5.308.057	32,0%	5.055.766	31,7%
Other vehicle insurance	2.239.505	13,5%	2.188.699	13,7%
General liability insurance	912.766	5,5%	878.111	5,5%
Accident and health insurance	1.745.813	10,5%	1.575.378	9,9%
Life insurance	1.010.929	6,1%	924.031	5,8%
Reinsurance	1.239.728	7,4%	1.194.335	7,4%
	16.596.738	100,0%	15.958.546	100,0%
Domestic and foreign operations - premiums earned				
Domestic operations	15.357.010	92,5%	14.767.260	92,5%
Foreign operations	1.239.728	7,5%	1.191.287	7,5%
	16.596.738	100,0%	15.958.546	100,0%

Contract risk is a risk connected to insurance contracts that contain wrong or misleading information on insurance policy or in other legalised form. The risk can also arise from the scope of the terms being unclear. Risk from reinsurance contracts arises if there is no protection for the claim.

Risk connected to sales, renovate and risk assessment consists from insurance cover that the Group sells is under-priced or risk assessment is inadequate. Risk of employees mistakes, insurance consultants, sales employees and insurance brokers is included. The same apply to use of personal information and competition law.

Risk from product management is that monitoring of development and results of specified insurance classes of the Group is not adequate and that action is not taken with change in price or in other ways.

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27.10 Insurance risk (condt.)

Risk connected to product development and new products ariese if preparation is not done properly, with consequences that plans will not be met and loss can be from operation.

Technical provision risk is the risk that the obligation of the Group related to its insurance contracts is underestimated, both for unearned premiums and claims provision. Unearned premiums liability is the estimated amounts due to unexpired policies. Claims provision is the estimated liability due to incurred but unsettled losses, both reported and unreported. Estimated value of technical provision is based on the methods of Solvency II.

Sensitivity analysis

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

	2015	2016
Loss amounts	101.697	101.274
Claims provision	121.865	124.131
Premiums, based on no change in loss or cost ratios	8.450	4.785

The main risk factors are mistakes in handle of and settlement of claims, wrong decision making or fraud by emploees. There is also risk that claimant gives wrong information or exaggerates the claim, i.e. insurance fraud. This also includes administration of sensitive personal information and contractors will go beyond their purview.

Reinsurers´ risk is the risk of reinsurers not paying their share of losses, the amount of reinsurance is not enough, there is a mismatch between primary insurance and reinsurance, and different intrepretation between insurer and reinsurer on reinsurance agreement. 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 of 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 2015 and an estimation for the year 2016.

	2016	2015
AA+	5,5%	5,7%
AA-	82,7%	82,1%
A+	6,2%	6,6%
A	0,8%	0,8%
A-	4,8%	4,8%
	100,0%	100,0%

27.11 Operational risk

Operational risk consists of all risks that are related to regular operations of the Group and is defined as a risk of direct or indirect loss due to internal factors of the Company, such as employees, structure, contracts, filing, processes, working procedures, external factors, such as legal risk and customer relationships. It is the Company's policy to reduce operational risk, taking the cost of preventive measures in to the account.

The main factors of operational risk are:

· Organizational structure.
· Filing and contracts.
· Information technology.
· Employees.
· External events.

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27.12 Internal management and monitoring

The Group has established a policy about internal management and monitoring. The policy is to have a well-organized and dependable internal management and monitoring system which is an integral part of risk management. Internal management and monitoring systems are articulated by the Board, management and employees and designed to give reasonable certainty that the Group will reach its goals:

· Results and efficiency in operation (operational goals).
· That information are dependable (goals for correct information).
· That laws and regulations are always followed (goals for law compliance).

27.13 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 calculated as the combined ratio, except that the ratio's denominator also includes, in addition to premiums for the year, investment income and other income from insurance operations. Claims ratio, operating ratio and reinsurers' cost ratio are calculated as proportion of premiums for the year.

Ratios for the years 2014 and 2015 are calculated according to methods of Solvency II and are explained above. Ratios from previous years are calculated according to older legalisations.

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

	2015	**2014**	**2013**	**2012**	**2011**
Net claims ratio	79,4%	82,4%	75,5%	75,6%	83,0%
Claims ratio	76,7%	80,4%	78,7%	73,6%	82,1%
Operating cost ratio	21,5%	21,4%	21,4%	21,6%	20,9%
Reinsurers´ cost ratio	3,3%	2,7%	-2,3%	3,3%	3,1%
Combined ratio	**101,5%**	**104,5%**	**97,8%**	**98,5%**	**106,1%**
Investment income ratio	6,9%	6,4%	7,3%	6,8%	5,9%
Ratio of other income from insurance operations	1,0%	1,0%	1,0%	0,8%	0,7%
Operating ratio	**94,1%**	**97,3%**	**90,3%**	**91,6%**	**99,5%**

28. Related parties

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

Transactions and balances with related parties are specified as follows:

2015	Income	Expenses	Assets	Liabilities
Related entities	3.033	6.983	12.022	0
Board of directors and key management personnel	5.220	2.240	72	0
	8.253	9.223	12.094	0
2014				
Related entities	16.352	26.821	16.601	0
Board of directors and key management personnel	3.633	737	437	0
	19.986	27.557	17.037	0

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29. Guarantees and other matters

The Group is the lessee in a number of leases of premises in various places in Iceland. Montly lease payments amounts to ISK 18 million at year end 2015. Total future committment is ISK 427 million as at the same time. The lease contracts are for a specified lease periods, more specifically to the years 2017 - 2019.

According to these contracts lease payments for the next year amounts to ISK 222 million and ISK 204 million in total for the years 2017-2019.

Rent payments amounted to ISK 215 million for the year 2015 and ISK 212 million for the year 2014.

Settlement of a lawsuit of the Winding-up board of SPRON against VÍS

As disclosed in VÍS's prospectus in 2013 the Winding-up board of SPRON filed a lawsuit against VÍS on 18 July 2012 demanding among other things recission of SPRON's repayment on 31 October 2008 of a money market loan provided by VÍS to SPRON in September 2008, amounting to ISK 2 billion. Klakki ehf., the former owner of VÍS, decided to hold VÍS harmless in court case. Klakki also pledged to increase VÍS equity by up to ISK 3.5 billion so that ruling of the court would not affect market value of VÍS shares (“subscription promise”).

The development of the case has been disclosed in the Company's financial statements as well as in its interim financial statements.

In February 2015 VÍS and SPRON settled to terminate the case. With the settlement both parties accepted that they don´t hold any claims against each other, no matter. There was no cost that VÍS had to bear due to the agreement except own legal cost.

The Board of directors of VÍS agreed to release Klakki from its subscription promise and bank guarantee after the agreement was made.

30. Events after the reporting date

The Company announced on 18 January 2016 that deal had been made with Arctica Finance hf. for issue and sales of new subordinated bonds for nominal value of ISK 2,500 million.

The new bonds are coupon bonds which bear 5.25% fixed indexed rate. The bonds will mature in 30 years, the issuer has allowance for prepayments and interest rate will step up to 6.25% after 10 years. The issue is a part of Tier 2 equity which aims to make capital structure of the Company efficient.

Arctica Finance has already agreed to be obligated to buy all the bonds on behalf of investors. Nevertheless, the Company will, in cooperation with Arctica Finance, hold closed tender for pension funds, capital funds and professional investors willing to invest in the bonds. The bonds will be issued on 29 February 2016 and will be listed during the year. Expected Solvency II solvency ratio at year-end 2015 subsequent to the issuing of subordinated bonds and dividend payment is 1.55.

31. 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 1 January 2015. A few new standards, changes to standards and interpretations of standards are not yet effective as of 1 January 2015 and have not been applied in these financial statements. The effects of those changes to standards and interpretations have not been evaluated.

The notes to the financial statements are prepared based on relevance and materiality with respect to the needs of users of the financial statements. Therfore information that is considered neither relevant nor material for the user of the financial statements is not disclosed.

31.1 Group

The Group´s financial statements include the financial statements of the Parent Company and its subsidiary. 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 of subsidiaries 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 acquistion 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 transations 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-contolling interest is immaterial it is not presented separately in the financial statements.

31.2 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. Acquition-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 acquision date. Subseqent 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.

31.3 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 acquision 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 occured if carrying amount exceeds recoverable amount. Impairment is first recognised by the expense of goodwill and thereafter as a a reduction of the carrying amount of other assets of that cash-generating unit. Impairment losses of goodwill is not reversed in later periods.

31.4 Customer relationships

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

31.5 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. Unearnd 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 recognsied 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.

31.6 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.

31.7 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 conseuences 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 recognied 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 recognsied 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 liabilites 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 proportionl 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.

31.8 Foreign currencies

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

31.9 Financial expenses

Financial expenses are expensed in profit or loss as incurred.

31.10 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. Taxable income for the year is generally different from profit or loss for the year according to the financial statements. Calcualted tax is based on tax rates enacted at the reporting date.

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.

31.11 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 review 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.

31.12 Software

Software is recognized at cost less accumulated amortisation and impairment. 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 in to use.

31.13 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 acount transaction cost incurred in the case of financial assets not recognised subsequently at fair value. Subsequent to initial recognition fiancial assets at fair value through profit or loss are recognised at fair value but financial assets held-to-maturity as well as loans and receibables 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.

31.13 Financial assets (condt.)

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 ssets 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 recognistion if one of the following conditions are fulfilled:

- the designation reduces or eliminates measurement or recognistion mismatch.
- the financial asset is a part of a portfolio of financial assets or liabiliities, or both, and is recognised at fair value in accordance with the Group´s documented risk management policy or investment managent 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 occured 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.

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 recognistion, 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 asssessments 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.

31.13 Financial assets (contd.)

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 of other assets

At each reporting date management reviews 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 liabilties and equity

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

Equity instruments

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, recognied 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 accumulated 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.