TM hf.

Consolidated Financial Statements
for the year 2019
ISK

TM hf.
Síðumúla 24
108 Reykjavík
Iceland

Reg no. 660269-2079

Please note.

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

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Report and Statement of the Board of Directors and the CEO

Main operation

The consolidated financial statements comprise of TM hf. (Parent) and its subsidiaries, Líftryggingamiðstöðin, TM tryggingar hf., Íslensk endurtrygging hf. and TM fé, together referred to as the “Group”. TM's main operation is insurance and financial operations.

Operations and financial position 2019

According to the Profit and Loss Account, the Group's operating profit amounted to ISK 1,866 million. The Group's revenue amounted to ISK 19,182 million during the year. The average number of workers was 123. The Group's assets at year-end amounted to ISK 41,354 million. The Group's liabilities at year-end amounted to ISK 24,003 million. kr. and the Group's equity at year-end 2019 was ISK 17,351 million according to the balance sheet. The Group's equity ratio was 42% at year-end and the solvency ratio 2.18.

Appropriation of net profit

The Board of Directors proposes no dividend payment in 2020 (2019: ISK 1 per share). In 2019 the dividend payment was ISK 700 million which corresponds to 5% of equity or 4% of the market value of share capital at year end 2018.

Share capital

The Company's share capital at year end amounted to ISK 772 million and was increased by ISK 94 million in 2019. The Company's shares are in a single class of shares listed on the Nasdaq OMX Nordic Exchange. All shares confer the same rights.

The Company's share capital is at year end divided between 794 shareholders, compared to 802 at the beginning of the year, and has therefore decreased by 8 in 2019. The ten largest shareholders at year end and their share in the Company is specified as follows:

Shareholders:	Share in ISK thousand	Share in %
Stoðir hf.	76.978	9,97
Gildi lífeyrissjóður	71.388	9,25
Lífeyrissjóður verslunarmanna	63.964	8,29
Íslandsbanki hf.	57.699	7,47
Lífeyrissj.starfsm.rík. A-deild	54.750	7,09
Birta lífeyrissjóður	51.052	6,61
Lansdowne Icav, Lansdowne Euro	45.052	5,84
LF Miton UK, Multi Cap Income	34.754	4,50
Stefnir - ÍS 15	29.165	3,78
Stapi lífeyrissjóður	26.922	3,49
	511.724	66,29
Other shareholders	260.169	33,71
Total issued capital	771.893	100,00

Further information on share capital is included in note 30 and is accessible on the Company's website, www.tm.is.

Corporate governance

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

The composition of the Board of Directors of the Company shall meet the requirements of the Companies Act to ensure that the proportion of each gender is not lower than 40%. There are two women and three men on the main board and a male and a female on the alternate board. In addition, the nomination committee shall, in its proposal for nominating candidates for the Board of Directors, i.a. ensure that it carries with it diversity and breadth in competence, experience and knowledge and that gender ratios are in control. In other respects, the Board has not adopted a policy of diversity in the management of the company.

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

Think ahead

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

Risk Management

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

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

Corporate Social Responsibility

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

The Company has signed Festa and Reykjavík city´s declaration for Climate Change with targets in place for 2030. The Company´s goal is to reduce carbon emissions by at least 34% and increase waste sorting to 80% during that time. In 2015 the Company launched systematic measurements for Climate Change and in 2019 carbon emissions were measured at 1.24 tons per employee (2018: 1.34 tons).

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

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

TM signs a contract on the acquisition of Lykill financing

On July 21st 2019, TM hf. (TM) started exclusive negotiations with Klakki ehf., owner of Lykill fjármögnun hf. (Lykill), in order to acquire Lykill. These negotiations concluded on October 10th with the signing of a purchase agreement to acquire 100% stake in Lykill. The purchase price is ISK 9.250 million plus a payment equal to the amount of distributable after-tax-profit of Lykill for the operating year of 2019 that TM pays to the seller.

On January 7th 2020, the purchase was concluded by the payment of the purchase price, apart from the 2019 after-tax-profit of Lykill. Hence Lykill has now become a part of the TM group in the year 2020.

The acquisition of Lykill is in accordance with TM's strategy and TM's operations will from now on be divided into three equally important pillars; insurance operations, lending activities and investment activities. Lykill's operations will be transferred to TM's headquarters at Síðumúli 24 and it is planned that all operations will be there by the end of Febuary 2020. See note 46 for more information.

Reorganization

On January 30, TM introduced a new organizational chart for the company that reflects new emphases in accordance with TM's strategy and objectives with the acquisition of Lykill and will enable TM to offer a diverse and advanced financial service to the Group's customers. A new organizational structure took place Febuary 1, 2020.

TM has requested a split of its subsidiary TM fé ehf. to TM tryggingar hf. and later the merger of TM fé ehf. and parent company and is awaiting the approval of the authorities. Once available, the split will apply from September 30, 2019.

Statement by the Board of Directors and the CEO

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

According to the best of our knowledge, the consolidated financial statements of TM hf. for the year 2019 give a true and fair view of the assets, liabilities, financial position at year end and financial performance of the Group during the year.

Further, in our opinion the consolidated financial statements and the statement of the Board of Directors and the Chief Executive Officer give a fair view of the development and performance of the Company's operations and its position and describes the principal risks and uncertainties faced by the Group. Reference is made to notes 35-41 in the consolidated financial statements regarding information on financial risk management.

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of TM hf. for the year 2019 and confirm them by means of their signatures. The Board of Directors and the CEO submit the financial statements to the Annual General Meeting for approval.

Reykjavík, February 13, 2020

Board of Directors:

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

CEO:

Sigurður Viðarsson

Independent Auditors' Report

To the Board of Directors and Shareholders of TM hf.

Opinion
We have audited the accompanying consolidated financial statements of TM hf. and its subsidiaries (the Group) which comprise the Report and Statement of the Board of Directors and the CEO, the consolidated income statement and the consolidated statement of comprehensive income for the year 2019, the consolidated balance sheet as of December 31 2019, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and that the directors report includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the consolidated financial statements.

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

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

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

Key Audit Matters	***Audit procedures***
Estimate of claims outstanding, including assumptions and calculations on which it is based on. *Refer to note 32 "Claims outstanding "* Claims outstanding is the value of reported claims and actuarial plan for claims incurred but not reported and amounts to ISK 14,399,174 thousand at the end of the year 2019 and represents 60% of total liabilities. Claims outstanding is a material financial statement line item. Because of complexity and the magnitude of estimation in relation to calculation of the claim reserve it is a key audit matter in our audit. The estimation of claims outstanding is dependent on professional judgement and is based on total amount of reported outstanding, plus actuarial estimate of claims that have incurred but not yet been reported, settlement costs and other factors. In making these estimations, best estimates of future contractual cash flows and claims handling are used. It is difficult to estimate claims incurred but not yet reported at each reporting date as there can be limited information about the claim. In addition there is more variability between initial estimates and final estimates for claims where there is a greater length of time between the initial claim event and settlement. The valuation of outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, for which small changes in assumptions can result in material impacts to the estimates.	PwC´s actuarial specialists assisted in performing our audit procedures. Audit of claims outstanding estimates included, among others, the following factors: Claims handling process and the estimation process were understood and evaluated. We understood and evaluated management's presumptions in estimating the claims outstanding, including historical data about settlement of claims to different business classes. Our evaluation included, among other things, reviewing and assessing important factors in the estimation of the claims outstanding. We tested control activities. We tested with sampling completeness and accuracy over the data which the claims estimations are based on. We tested reconciliations between systems which the claims outstanding calculations are based on. PwC's actuarial specialists performed independent calculation of the claims outstanding. We performed sampling testing on insurance policy, unsettled and settled claims. Related notes were reviewed.

Independent Auditors' Report contd.

Key Audit Matters	***Audit procedures***
Valuation of unlisted securities R*efer to note 24 "Financial assets and financial liabilities"* Securities are the Group´s largest asset amounting to ISK 28,015,235 thousands or the equivalent of 68% of total assets at year end 2019. A significant part of securities assets are listed on the market and therefore their quoted market prices are known at the end of the reporting period. The part of the securities assets requiring special attention in the audit are unlisted securities where fair value is estimated using valuation techniques and is subject to uncertainty. Therefore unlisted securities are a key matter in the audit. These securities are defined in level 2 and 3 according to level of fair value. The value of these securities amount to ISK 9,965,730 thousand or the equivalent of 24% of total assets at the year end 2019. Valuation techniques can be the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially comparable, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.	PwC´s valuation experts assisted us in auditing unlisted securities. Audit of valuation of unlisted securities included, among other things, the following factors: Investment process was understood and evaluated. We understood and evaluated the methodology and assumptions for valuations and compared with common criteria for similar assets. The data on which the calculation and assumptions were based on in different valuation methods were reviewed and assessed. We performed sampling procedures of securities and performed an independent calculation on fair value. We verified those cases where valuation was based on recent transaction. Classification of securities in fair value levels was reviewed. Related notes were reviewed.

Other information in the annual report
The Board of Directors and CEO are responsible for other information. Other information comprises note 47 quarterly results, supplement to note 32 and appendix to the consolidated financial statements about corporate social responsibility and corporate governance statement. Other information are also the annual report. The annual report is not available at our signing date of our opinion but is expected to be made available to us prior to its publication.
Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read other information in the annual report when it is available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditors' Report contd.

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

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

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

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

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

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

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

We communicate with those charged with governance and the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Reykjavík, February 13, 2020

PricewaterhouseCoopers ehf.

Arna G. Tryggvadóttir
State authorized public accountant

Bryndís Björk Guðjónsdóttir
State authorized public accountant

Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year 2019

	Notes	2019	2018
Premiums earned		16.867.026	16.372.562
Outward reinsurance premiums		(659.432)	(724.417)
Earned premiums, net of reinsurance	10	16.207.594	15.648.145
Finance income	11	2.945.180	1.805.031
Finance income from investment properties	12	0	12.010
Other income		29.101	51.034
Total income		19.181.875	17.516.220
Claims incurred		(13.654.232)	(13.923.477)
Claims incurred, reinsurers' share		110.870	787.393
Claims incurred, net of reinsurance	13	(13.543.362)	(13.136.084)
Operating expenses	14	(3.440.990)	(3.541.144)
Interest expenses	16	(228.942)	(183.532)
Impairment	17	(95.868)	44.960
Total expenses		(17.309.162)	(16.815.800)
Profit before income tax		1.872.712	700.420
Income tax	19	(7.059)	351
Profit and Comprehensive Income for the year		1.865.653	700.771
Attributable to			
Equity holders of the parent		1.865.653	700.771
Earnings per share			
Basic and diluted earnings per share	18	2,74	1,03

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Consolidated Balance Sheet as of December 31, 2019

	Notes	31.12.2019	31.12.2018
Assets			
Operating assets	21	278.717	325.187
Right-of-use assets	22	426.625	0
Goodwill and other intangible assets	23	665.953	489.277
Restricted cash	24	4.749	4.637
Loans	24	822.095	1.053.650
Securities	24	28.015.235	26.438.425
Investment where investment risk is - borne by life-insurance policyholders	25	59.282	36.721
Deferred tax asset	26	99.743	88.311
Assets classified as held for sale	27	25.211	3.111
Reinsurance assets	28	415.123	720.176
Accounts receivables	29	4.108.062	4.051.892
Cash and cash equivalents	24	6.433.415	1.439.187
		41.354.210	34.650.574
Equity			
Share capital		771.893	678.143
Share premium		3.288.266	425.516
Reserves		192.973	270.710
Restricted reserves		5.212.538	4.362.638
Retained earnings		7.885.669	7.566.140
	30,31	17.351.339	13.303.147
Liabilities			
Subordinated debt	33	2.231.048	2.173.006
Technical provision	32	20.080.115	18.132.744
Technical provision for life-insurance policies where investment risk is borne by the policyholders	25	59.282	36.721
Lease liabilities	22	515.197	0
Derivative financial instruments	24	35.167	0
Trade and other payables	34	1.082.062	1.004.956
		24.002.871	21.347.427
		41.354.210	34.650.574

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Consolidated Statement of Changes in Equity for the year 2019

	Equity holders of the Parent Company							
	Share Capital	Share premium	Reserves	Restricted reserves	Retained earnings	Total	Minority interest	Total equity
Equity 1.1.2018	678.143	425.516	270.710	4.640.460	8.087.546	14.102.375	26	14.102.401
Comprehensive income					700.771	700.771	0	700.771
Restricted reserves				(277.822)	277.822			
Shareholders								
Paid out dividends					(1.500.000)	(1.500.000)		(1.500.000)
Change in minority interest							(26)	(26)
	0	0	0	0	(1.500.000)	(1.500.000)	(26)	(1.500.026)
Equity 31.12.2018	678.143	425.516	270.710	4.362.638	7.566.140	13.303.147	0	13.303.147
Equity 31.12.2018	678.143	425.516	270.710	4.362.638	7.566.140	13.303.147	0	13.303.147
Effect of IFRS 16					(73.962)	(73.962)		(73.962)
Equity 1.1.2019	678.143	425.516	270.710	4.362.638	7.492.178	13.229.185	0	13.229.185
Comprehensive income					1.865.653	1.865.653	0	1.865.653
Restricted reserves				849.900	(849.900)			
Shareholders								
Issued share capital	93.750	2.862.750				2.956.500		2.956.500
Paid out dividends					(700.000)	(700.000)		(700.000)
Reserves to 25% of capital			(77.737)		77.737			0
	93.750	2.862.750	(77.737)	0	(622.263)	2.256.500	0	2.256.500
Equity 31.12.2019	771.893	3.288.266	192.973	5.212.538	7.885.669	17.351.339	0	17.351.339

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Consolidated Statement of Cash Flows for the year 2019

	Notes	2019 1.1.-31.12	2018 1.1.-31.12
Net cash from operating activities			
Premiums, received		16.436.808	16.308.611
Claims, paid		(11.498.760)	(12.696.799)
Operating cost, paid		(2.773.518)	(3.055.391)
Net cash from insurance activites		2.164.530	556.421
Finance income, received		437.761	446.714
Finance expense, paid		(170.901)	(120.158)
Investments income, received		996.435	1.091.644
Finance income from investment properties, received		0	944
Operating cost, paid		(378.207)	(416.644)
Net cash from investments activites		885.088	1.002.500
Income tax paid		0	(211.195)
Net cash from operating activities		3.049.618	1.347.726
Investing activities			
Securities, change		(156.535)	289.618
Restricted cash, change		(112)	2.106
Loans, change		205.570	306.815
Investment properties, change		0	111.024
Operating assets, additions		(5.002)	(44.156)
Operating assets, sales		5.200	32.500
Intangible assets, additions		(232.087)	(210.636)
Net cash flow used in investing activities		(182.966)	487.271
Financing activities			
Issued share capital		2.956.500	0
Dividend paid to shareholders		(700.939)	(1.499.848)
Lease liabilities, change		(127.985)	0
Borrowing, change		0	(25.803)
Net cash flow used in financing activities		2.127.576	(1.525.651)
Increase (decrease) in cash and cash equivalents		4.994.228	309.346
Cash and cash equivalents at the beginning of the year		1.439.187	1.129.841
Cash and cash equivalents at the year-end	24	6.433.415	1.439.187

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

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Notes

1. The Company

TM hf.'s ("The Company") registered office is at Síðumúli 24 in Reykjavík, Iceland. The consolidated financial statements of TM hf. as at and for the year ended 31 December 2019 comprise the company and its subsidiaries, together referred to as the “Group”. List of the subsidiaries is included in note 44. TM's main operation is non-life insurance, life insurance and financial operation.

2. Basis of preparation

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

The financial statements were approved by the Board of Directors of TM hf. on February 13, 2020.

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

3. Functional and presentation currency

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

4. Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement.

5. Basis of consolidation

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

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

6. Basis of measurement

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

7. Use of estimates and judgements

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

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

Notes, contd.

7. Use of estimates and judgements, contd.

Final liabilities from claims

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

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

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

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

(iii) *Determination of impairment of financial assets*

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

8. Changes in accounting policy and disclosures

(i) Standards, amendments and interpretations effective on or after 1 January 2019.

On January 1, 2019 the IFRS 16 "Leases" became effective which had an impact on the group as indicated in note 22. At the beginning of the year a few standards were adopted that have negligible or no impact on the Group's financial statement.

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

The following standard have been issued but are not effective for the financial year beginning 1 January 2019 and not early adopted.

Standard/ interpretation	*Content*	*Applicable for financial years beginning on/after*
IFRS 17	Insurance contracts	1. January 2022

IFRS 17 Insurance contracts

Nature of change

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

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

Impact

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

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Notes, contd.

8. Changes in accounting policy and disclosures, contd.

Date of adoption by group

Mandatory for financial years commencing on or after January 1, 2022 or later. Although the International Accounting Standards Board will make a decision in 2020 about postponing the adoption of the standard by 1 year.

IFRS 9 Financial Instruments

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

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

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

The Group has decided to postpone the adoption of the new standard IFRS 9 'Financial Instruments' until January 1, 2022, as it meets the conditions for postponement. The Group will therefore continue to use the standard IAS 39 'Financial Instruments: Recognition and measurement'

(iii) *c) Early adoption of standards*

No standards have been early adopted by the Group, prior mandatory, in the year 2019.

Notes, contd.

9. Segment reporting

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

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

Operating segment

The following segments are the Group's centre operation:

Operating segment	**Non-Life insurance**		**Life insurance**		**Financial operation**		**Group**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Premiums	16.164.339	15.731.542	702.687	641.020	0	0	16.867.026	16.372.562
Outward reinsurance premiums	(453.099)	(540.253)	(206.332)	(184.164)	0	0	(659.432)	(724.417)
Investment income	631.621	884.107	6.881	14.290	2.306.677	906.633	2.945.180	1.805.031
Investment asset income	0	0	0	0	0	12.010	0	12.010
Other income	0	0	0	0	29.101	51.034	29.101	51.034
Total income	16.342.861	16.075.396	503.236	471.146	2.335.778	969.677	19.181.875	17.516.220
Claims incurred	(13.335.424)	(13.794.749)	(318.808)	(128.728)	0	0	(13.654.232)	(13.923.477)
Claims incurred, reinsurers' share	(32.032)	725.088	142.902	62.305	0	0	110.870	787.393
Operating expenses	(2.885.133)	(3.010.670)	(87.191)	(110.469)	(468.666)	(420.005)	(3.440.990)	(3.541.144)
Interest expenses	0	0	0	0	(228.942)	(183.532)	(228.942)	(183.532)
Impairment	0	0	0	0	(95.868)	44.960	(95.868)	44.960
Operating profit of segment	90.272	(4.935)	240.139	294.254	1.542.302	411.100	1.872.712	700.420
Income tax							(7.059)	351
Profit for the year							1.865.653	700.771
Total assets	19.713.337	17.787.379	366.778	345.365	21.274.095	16.517.830	41.354.210	34.650.574
Total liabilities	19.713.337	17.787.379	366.778	345.365	3.922.756	3.214.683	24.002.871	21.347.427

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Notes, contd.

9. Segment reporting, contd.

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

Year 2019

	Property insurance	Marine, flight and cargo insurance	Motor insurance	General liability insurance	Accident and health insurance	Total P&C	Reinsurance	Total Non-Life insurance
Premiums earned	3.624.690	1.400.618	7.886.485	1.193.552	2.058.993	16.164.337		16.164.339
Earned premiums, net of reinsurance	3.401.258	1.264.119	7.869.146	1.130.084	2.046.633	15.711.240		15.711.240
Investment income	67.308	27.166	329.593	75.028	132.526	631.622		631.621
Claims incurred, net of reinsurance	(2.062.894)	(2.115.225)	(6.604.572)	(762.779)	(1.820.698)	(13.366.168)	(1.288)	(13.367.456)
Operating expenses	(715.506)	(283.967)	(1.457.668)	(128.709)	(299.285)	(2.885.135)		(2.885.133)
Operating profit	690.166	(1.107.907)	136.499	313.624	59.176	91.559	(1.288)	90.272

Year 2018

	Property insurance	Marine, flight and cargo insurance	Motor insurance	General liability insurance	Accident and health insurance	Total P&C	Reinsurance	Total Non-Life insurance
Premiums earned	3.287.365	1.528.167	7.885.573	1.083.110	1.947.327	15.731.541		15.731.542
Earned premiums, net of reinsurance	3.000.877	1.345.064	7.868.180	1.042.262	1.934.907	15.191.290		15.191.289
Investment income	105.141	39.372	450.950	101.455	187.189	884.108		884.107
Claims incurred, net of reinsurance	(2.537.392)	(1.468.763)	(6.382.542)	(998.530)	(1.684.448)	(13.071.675)	2.015	(13.069.661)
Operating expenses	(737.729)	(313.948)	(1.520.646)	(137.407)	(300.940)	(3.010.670)		(3.010.670)
Operating profit	(169.103)	(398.275)	415.942	7.780	136.708	(6.947)	2.015	(4.935)

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Notes, contd.

	2019	2018
10. Earned premiums, net of reinsurance		
Premiums written	17.082.098	16.708.577
Reinsurer's share	(668.139)	(732.439)
Change in the gross provision for unearned premiums	(215.072)	(336.015)
Change in the provision for unearned premiums, reinsurer's share	8.707	8.022
Earned premiums, net of reinsurance	16.207.594	15.648.145

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

11. Finance income

Interest income presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis. Net income from investments in securities comprise gain on sale of shares, changes in fair value of investment and interest income and dividend. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign exchange rate difference comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies. Minority interest is accounted for using the equity method, but they are classified within securities in the balance sheet as the purpose for the investment is the same as with other investments in securities.

	2019	2018
Interest income from deposits	38.004	42.513
Interest income from bonds	77.154	99.778
Other interest income	291.223	280.164
Share in the results of an associate company	0	172.939
Fair value change of securities	2.529.040	1.170.833
Fair value change of derivative contracts	(35.167)	0
Exchange rate difference	44.926	38.803
Finance income, total	2.945.180	1.805.031

	2019	2018
12. Income from investment properties		
Change in fair value	0	11.375
Rental income	0	635
Total investment asset income	0	12.010

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

The Group's investment assets were sold in 2018. The investment assets where valued at fair value in accordance with IAS 40 “Investment Property” and IFRS 13 “Fair Value Measurements”. Every investment property was included in step 2 of the fair value classification system. Investment property valuation was done by the company's employees. Based on the assumptions in determining the fair value of investment properties that are subject to management's estimation, the actual selling price may differ from the valuation. The valuation used the market price of comparable assets. Investment income on investment property amounted to ISK 12 million. kr. in 2018. Direct operating expenses for investment properties amounted to ISK 1 million. kr. in 2018 and is recognized among operating expenses in the income statement 2018.

	2019	2018
13. Claims incurred, net of reinsurance		
Claims paid	(11.921.934)	(13.318.111)
Claims paid, reinsurer's share	424.631	552.260
Change in claims provisions	(1.674.120)	(561.898)
Change in risk margin	(58.178)	(43.468)
Change in the provision for claims, reinsurer's share	(313.761)	235.133
Claims incurred, net of reinsurance, total	(13.543.362)	(13.136.084)

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Notes, contd.

14. Operating expenses

Operating expenses consist of salary expenses, marketing costs, computer expenses, office and administrative expenses, housing costs, depreciation, amortization and other expenses.

	2019	2018
Salaries and related expenses	1.863.164	1.871.748
Operating expenses	1.577.826	1.669.396
Operating expenses, total	3.440.990	3.541.144

15. Salaries and related expenses

	2019	2018
Salaries	1.439.629	1.467.536
Defined contribution expenses	197.246	183.796
Payroll tax	206.173	200.969
Other salary related expenses	20.116	19.447
Salaries and related expenses, total	1.863.164	1.871.748
Average number of full time equivalent employees	123	125

The Board of Directors of TM has approved rules regarding a salary bonus system in accordance with applicable rules of the FSA no. 299/2012. Payments during the year according to the system amounted to ISK 7 million. Possible total obligation due to unpaid salary bonus amounts to ISK 24 million has been charged.

16. Interest expenses

	2019	2018
Interest expense on borrowings	0	6.004
Interest expense on subordinated debt	188.379	175.356
Other interest expenses	40.562	2.172
Interest expenses, total	228.942	183.532

17. Impairment of financial assets

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

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

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

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

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

	2019	2018
Impairment of securities and loans	10.149	(41.556)
Impairment of accounts receivable	85.719	(3.404)
Impairment, total	95.868	(44.960)

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

18. Earnings per share

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

	2019	2018
Profit	1.865.653	700.771
Average number of shares each year	681.491	678.143
Basic earnings per share	2,74	1,03

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

19. Income tax

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

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

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

Income tax recognised in the income statement is specified as follows:	2019	2018
Effect of IFRS 16 January 1st	18.490	0
Difference between estimated and assessed taxes	0	6.914
Deferred tax	(11.431)	(7.265)
Total income tax in income statement	7.059	(351)

Effective tax rate:		2019		2018
Profit before income tax		1.872.712		700.420
Income tax using Icelandic corporation tax rate	20,0%	374.542	20,0%	140.084
Non tax deductible expenses	0,0%	18	0,1%	400
Tax exempt revenue	(19,8%)	(371.256)	(21,1%)	(147.749)
Difference between estimated and assessed taxes	0,0%	0	1,0%	6.914
Other items	0,2%	3.755	0,0%	0
Effective tax rate	0,4%	7.059	0,0%	(351)

20. Auditor´s fee

	2019	2018
External auditor		
Audit and review of financial statements	18.897	17.219
Other audit services	6.330	4.335
Other services	3.964	833
Other auditors		
Internal audit and other services	60.889	35.815

21. Operating assets

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

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

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

21. Operating assets, contd.

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

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

Tangible assets on the balance sheet are as follows:

	Buildings	Office equipment, hardware, vehicles	Total
Total value 1.1.2018	173.885	689.269	863.154
Additions during the year 2018	17.747	26.409	44.156
Sold and disposals during the year 2018	(12.350)	(53.500)	(65.850)
Total value 31.12.2018	179.282	662.178	841.460
Previously depreciated	112.933	407.607	520.540
Depreciated during the year	3.761	51.343	55.104
Sold and disposals during the year 2018	(11.115)	(48.255)	(59.370)
Total depreciation 31.12.2018	105.579	410.695	516.274
Book value 31.12.2018	73.703	251.483	325.187
Total value 1.1.2019	179.282	662.178	841.460
Additions during the year 2019	1.875	3.127	5.002
Sold and disposals during the year 2019	0	(14.352)	(14.352)
Total value 31.12.2019	181.157	650.953	832.110
Previously depreciated	105.579	410.695	516.274
Depreciated during the year	4.419	41.508	45.927
Sold and disposals during the year 2019	0	(8.808)	(8.808)
Total depreciation 31.12.2019	109.998	443.395	553.393
Book value 31.12.2019	71.159	207.558	278.717

Official tax valuations of buildings at year end 2019 amounted to ISK 189 million and land amounted to ISK 27 million, total of ISK 216 million. The insurance value of these assets amounted to ISK 298 million. The insurance value for other assets amounted to ISK 1.026 million.

22. The impact of transition to IFRS 16

At the beginning of the year, the IFRS accounting standard, IFRS 16 'Leases', took effect. The Group applied the standard from January 1, 2019 as required, in accordance with the standard in the simplified transition approach, and will therefore not recalculate or change the comparative amounts.

Upon the implementation of IFRS 16, the Group recognized liabilities for leases related to leases that had previously been classified as operating leases in accordance with IAS 17 Leases. These liabilities were assessed by discounting the remaining lease payments at interest rates that were the equivalent of the Group's borrowing on January 1, 2019. The weighted average interest rate is 6.5%.

As of January 1, 2019, the Group stated lease agreements as follows:

	31.12.2019	1.1.2019
Right-of-use assets		
Buildings	414.190	507.919
Vehicles	12.435	24.567
Total	426.625	532.486

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Notes, contd.

22. The impact of transition to IFRS 16 , contd.	31.12.2019	1.1.2019
Deferred income tax liability		18.490
Lease liabilities		
Lease liabilities	515.197	624.938
Next year's payment	135.728	
Equity		
Impact of transition to IFRS 16 on equity		73.962

The effect of the adoption of IFRS 16 on the consolidated financial statements and its segments during the period is negligible. Prior to the adoption of IFRS 16, lease payments from leases were recognized as operating expenses, but lease contracts for longer than 12 months were recognized as right-of-use assets and lease liabilities in the balance sheet. Depreciation of an right-of-use asset is now recognized under operating expenses, while interest expenses on lease liabilities are recognized among interest expenses.

Right-of-use assets are initially recognized in the balance sheet on the contract date of lease contracts and are valued at cost. They are then recognized in accordance with IFRS 16, taking into account depreciation, impairment and adjustments for the revaluation of the lease liability, as applicable. Right-of-use assets are recognized among assets.

Right-of-use assets are as follows:	
Right-of-use assets 1.1.2019	532.486
Indexation for the year	18.244
Depreciation	(124.104)
Right-of-use assets 31.12.2019	426.625

Lease liabilities are as follows:	
Lease liabilities 1.1.2019	624.938
Installment element of lease payments	(127.985)
Indexation for the year	18.244
Lease liabilities 31.12.2019	515.197

The Group has recognized in the income statement during the period the recognition of leases in accordance with IFRS 16, depreciation of amount ISK 124 million and interest expense amount to ISK 36 million. If the previous accounting would still apply then lease payments amount to ISK 164 million.

23. Goodwill and Intangible assets

Goodwill

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

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

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

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Notes, contd.

23. Goodwill and Intangible assets, contd.

Software

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

Goodwill and intangible assets are specified as follows:

	Goodwill	Software	Total
Total value 1.1.2018	99.916	336.718	436.634
Addition during the year 2018	0	210.636	210.636
Total value 31.12.2018	99.916	547.354	647.270
Previously depreciated	0	123.484	123.484
Depreciated during the year	0	34.510	34.510
Total depreciation 31.12.2018	0	157.994	157.994
Book value 31.12.2018	99.916	389.361	489.277
Total value 1.1.2019	99.916	547.354	647.270
Addition during the year 2019	0	232.087	232.087
Total value 31.12.2019	99.916	779.441	879.357
Previously depreciated	0	157.994	157.994
Depreciated during the year	0	55.410	55.410
Total depreciation 31.12.2019	0	213.404	213.404
Book value 31.12.2019	99.916	566.037	665.953
Depreciation ratio		10%, 33%	

24. Financial assets and financial liabilities

a. Financial instruments

(i) Financial assets and financial liabilities

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

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

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

(ii) Cash and cash equivalents

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

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Notes, contd.

24. Financial assets and financial liabilities, contd.
a. Financial instruments, contd.
(iii) Securities, contd.

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

A portion of securities is pledged for up to ISK 229 million. at the end of 2019. (2018: ISK 56 million)

Derivatives: The Group has entered into forward contracts to counteract fluctuations in the fair value of several securities. Derivatives are initially recognized at fair value on the date the contracts are entered into and are subsequently revalued to fair value at the end of each accounting period. Fair value changes are recognized in the income statement, in the fair value changes of securities under financial income. If no adjustment is allowed, derivatives with a positive balance are recognized among securities in the balance sheet, while derivatives with a negative balance are recognized among liabilities.

TM classifies its holdings in S121, a holding company for shares in Stodir hf., Including unlisted shares (level 2), but the company was considered to be an associate company according to IAS 28 and treated in the accounts according to equity method in the year 2018, but not anymore. The company's share in S121 is 18,5% (2018: 22.8%), which is valued at ISK 2.845 million (2018: ISK 2.377 million) on 31.12.2019. TM has one member on the board of S121, but the number of board members is a total of 6. This is an investment that is treated as part of the company's securities portfolio and is not otherwise related to TM's traditional insurance business.

(iv) Loans and accounts receivables

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

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

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

(v) Amortised cost measurement

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

(vi) Offsetting

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

b. Fair value measurement principles for financial instruments

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

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

Notes, contd.

24. Financial assets and financial liabilities, contd.

b. Fair value measurement principles for financial instruments, contd.

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

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

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

31 December 2019	Financial assets and liabilities at fair value	Loans and receivables	Total book value	Fair value
Restricted cash		4.749	4.749	
Loans		822.095	822.095	
Securities	28.015.199	35	28.015.235	28.015.235
Accounts receivables and other assets		4.523.185	4.523.185	
Cash		6.433.415	6.433.415	
Total financial assets	28.015.199	11.783.479	39.798.679	28.015.235
Derivative financial instruments	(35.167)		(35.167)	(35.167)
Trade and other payables		(1.082.062)	(1.082.062)	
Subordinated debt		(2.231.048)	(2.231.048)	
Financial assets - liabilities	27.980.032	8.470.369	36.450.402	27.980.068

31 December 2018	Financial assets and liabilities at fair value	Loans and receivables	Total book value	Fair value
Restricted cash		4.637	4.637	
Loans		1.053.650	1.053.650	
Securities	26.438.389	35	26.438.425	26.438.425
Accounts receivables and other assets		4.772.068	4.772.068	
Cash		1.439.187	1.439.187	
Total financial assets	26.438.389	7.269.577	33.707.967	26.438.425
Trade and other payables		(1.004.956)	(1.004.956)	
Subordinated debt		(2.173.006)	(2.173.006)	
Financial assets - liabilities	26.438.389	4.091.615	30.530.005	26.438.425

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

d. Level of fair value

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

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

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

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

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

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

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

Fair value as at 31.12.2019	**Level 1**	**Level 2**	**Level 3**	**Total**
State guaranteed securities				
State guaranteed securities	1.610.050	1.835		1.611.886
State guaranteed securities funds	413.670			413.670
Bonds				
Asset guaranteed bonds	7.592.614	200.773		7.793.387
Other bonds	924.018	363.414	169.000	1.456.432
Shares				
Listed shares	2.657.141			2.657.141
Unlisted shares		4.207.269	1.991.602	6.198.871
Share certificates				
Debt securities funds	4.120.057	1.320.683		5.440.740
Other securities				
Other securities	731.954	1.454.439	256.715	2.443.108
Total securities	18.049.504	7.548.413	2.417.317	28.015.235
Derivatives				
Derivatives, liabilities	35.167			35.167
Total financial liabilities	35.167	0	0	35.167

Fair value as at 31.12.2018	**Level 1**	**Level 2**	**Level 3**	**Total**
State guaranteed securities				
State guaranteed securities	2.277.816	2.180		2.279.997
State guaranteed securities funds	379.356			379.356
Bonds				
Asset guaranteed bonds	5.634.862	679.566		6.314.428
Other bonds	410.228	864.612		1.274.840
Shares				
Listed shares	2.416.969			2.416.969
Unlisted shares		3.273.532	3.642.052	6.915.584
Share certificates				
Debt securities funds	2.253.134	1.318.595		3.571.729
Other securities				
Other securities	1.065.469	1.940.403	279.650	3.285.522
Total securities	14.437.834	8.078.888	3.921.702	26.438.425

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

24. Financial assets and financial liabilities, contd.

d. Level of fair value, cont.

In 2019, the classification of assets was changed due to changed assumptions when assessing their fair value. Thus, assets amounted to ISK 169 million moved from level 2 to level 3.

Change in assets classified as level 3:

Balance 1.1.	3.921.702
Transferred between levels	169.000
Purchased	166.594
Sales/dividends/repayments	(2.109.478)
Interest and changes in valuation*	269.500
Balance 31.12	2.417.317

* Of which there are ISK -45 million realised and ISK 314 million unrealised.

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

Financial asset	Fair value 31.12.2019	Assumption	Range	Impact on fair value, sensitivity analysis
Unlisted shares	1.991.602	EBITDA growth Return on equity	0,4%-3,2% 12,6%-13,4%	Unlisted shares on level 3 are either assessed at the purchase price, based on equity, based on ratio comparison (properties 1) or based on cash flow assessments (properties 2). 5% decrease in value of properties 1 and 2.5% decrease in EBITDA growth and 2.5% increase in return on equity on properties 2 decreases the value of assets of ISK 320 million. 5% increase in value of properties 1 and 2.5% increase in profit growth and 2.5% decrease in return on equity on properties 2 increases the value of assets of ISK 452 million.

e. Loans are specified as follows:

	2019	2018
Bonds with collateral	662.507	923.797
Other loans	230.045	199.517
Unrecognized to income statement, premium and loan cost	(7.957)	(12.164)
Loans total	884.595	1.111.150
Provision for losses on loans	(62.500)	(57.500)
Loans according to balance sheet	822.095	1.053.650
Current portion	289.401	344.505
Non-current portion	532.694	709.145

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

	General provision	Specific provision	Total
Impairment on loans 1.1.2018	87.663	12.037	99.700
Amortization for the year		(2.010)	(2.010)
Paid in of previously depreciated		1.367	1.367
Loan impairment, change	(41.513)	(44)	(41.557)
Impairment on loans 31.12.2018	46.150	11.350	57.500
Amortization for the year		(6.811)	(6.811)
Paid in of previously depreciated		1.662	1.662
Loan impairment, change	5.749	4.400	10.149
Impairment on loans 31.12.2019	51.899	10.601	62.500

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

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

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

26. Deferred tax asset

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

	2019	2018
Deferred income tax asset 1.1	88.311	81.046
Income tax for the year	(7.059)	351
Difference between estimated and levied taxes for the previous year	0	6.914
Deferred tax asset, impact of transition to IFRS 16	18.490	0
Deferred income tax asset 31.12	99.743	88.311

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

	2019	2018
Property and equipment	(73.223)	(57.897)
Investment properties and liabilities	17.714	0
Accounts receivable	144.073	127.375
Currency flutctuation	(6.779)	5.095
Tax losses carried forward	17.957	13.738
Deferred tax asset 31.12	99.743	88.311

Carry forwards of losses from previous years are as follows:

Net loss in 2018, will expire in 2028	50.068
Net loss in 2019, will expire in 2029	39.715
	89.783

27. Assets classified as held for sale

Assets held for sale are appropriated assets, taken over by the Company for settlement of debt, recognised as purchase price deducted by impairment.

Assets	2019	2018
Real estate	445	445
Automobiles	24.766	2.667
	25.211	3.111

28. Reinsurance assets

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

	2019	2018
Premium reserve, reinsurer's share	90.520	81.812
Claims outstanding, reinsurer's share	324.603	638.363
Total reinsurance assets	415.123	720.176

29. Accounts receivables

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

	2019	2018
Accounts receivables out of insurance operations	3.806.954	3.835.878
Other receivables	301.108	216.014
Total receivables	4.108.062	4.051.892

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

29. Accounts receivablesm contd.

Provision for losses on accounts receivables

	2019	2018
Provision 1.1	138.100	229.669
Impairment during the year	85.720	(3.404)
Actual losses during the year	(42.355)	(88.165)
Total 31.12	181.465	138.100

30. Capital stock and reserve funds

Share Capital

Total share capital, approved and issued by the Company at year end 2019, amounted to 772 million shares; with value of 1 ISK per share. The share capital was increased by 94 million shares at the nominal value of ISK 1 per share. With each 1 ISK share comes 1 voting right, each shareholder has a right to one vote. Every share has been fully paid for.

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

Dividend

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

Share premium

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

Reserve

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

Restricted reserves:

Unrealized fair value changes of financial instruments

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

Share of profit from subsidiaries

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

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

30. Capital stock and reserve funds, contd.

Restricted reserves are specified as follows:

	Unrealized fair value changes of financial instruments	Share of profit of its subsidiaries	Total
Unrealized change in valuation of fair value instruments.	3.623.906		3.623.906
Tax effect of unrealized change in valuation of instruments	(394.952)		(394.952)
Share of profit of its subsidiaries		1.133.684	1.133.684
Total year end 2018	3.228.954	1.133.684	4.362.638
Beginning year 2019	3.228.954	1.133.684	4.362.638
Unrealized change in valuation of fair value instruments.	594.045		594.045
Tax effect of unrealized change in valuation of instruments	63.986		63.986
Share of profit of its subsidiaries		191.869	191.869
Total year end 2019	3.886.985	1.325.553	5.212.538

Retained earnings

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

31. Solvency

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

The Group's available capital as defined in Article 88 of the Act on Insurance Activity No. 100/2016, is ISK 19,338 million (2018: ISK 14,583 million). The Group's capital requirements (Article 96 of the Act, art. 100 of the Directive) is ISK 8,883 million (2018: ISK 8,362 million). The board proposes to have no dividend payments, bringing the solvency ratio to 2.18 (2018: 1.74).

	2019	2018
Equity according to balance sheet	17.351.339	13.303.147
Subordinated debt	2.231.048	2.173.006
Intangible assets	(665.953)	(489.277)
Proposed dividend payment and repurchase program	0	(700.000)
Difference between net technical provisions in the financial statements and cf. Solvency rules	421.484	296.604
Available capital	19.337.917	14.583.480
Solvency	19.337.917	14.583.480
Solvency requirement (SCR)	8.883.316	8.362.286
Solvency ratio after dividend	2,18	1,74
Minimum required capital (MRC)	3.681.954	3.464.763
Minimum required capital ratio after dividend	4,82	3,76

Solvency requirement

	2019	2018
Life insurance risk	226.185	211.228
Health insurance risk	1.381.419	1.247.736
Non-life insurance risk	4.659.543	4.278.438
Market risk	5.491.254	6.127.944
Counterparty risk	2.498.541	864.658
Diversification effect	(4.360.411)	(3.625.266)
Operational risk	562.206	514.521
Risk due to intantible assets	0	0
Adjustment for deferred taxes	(1.575.420)	(1.256.974)
Solvency requirement (SCR)	8.883.316	8.362.286

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

32. Technical provisions

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

The core of the Claims provisions is an actuarial estimate of payments of incurred claims till they will be settled, but less what has already been paid. According to Act on Insurance No. 100/2016 and related legislation, margins are added to the core of the claim's provisions:
1. Expected settlement expenses not allocated to specific claims. This cost is recognized among operating expenses when it is due.
2.The effect of future inflation from the date of accounts to payment.
3.The effect of discounting the future payments using a risk-free interest rate curve.

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

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

The Group has used the same method to estimate Claims Provisions since 2014. The method is in accordance with IFRS 4 and Act on Insurance No. 100/2016. The Claims provisions is the same as used in the Solvency calculations, but the estimates of the Premium provisions and risk margin are not.

The enclosed appendix on page 47 shows the development of the Group's claims for each of the last ten years and claims outstanding for the year at the end of 2019.

The technical provision is specified as follows:

	2019	2018
Technical provisions (total):		
Claims provisions	14.399.174	12.725.055
Premium provisions	5.102.549	4.887.476
Risk margin	578.392	520.214
Technical provisions, total	20.080.115	18.132.744

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

	2019	2018
Reinsurer's share:		
Claims provisions	324.603	638.363
Premium provisions	90.520	81.812
Reinsurer's share, total	415.123	720.176
Own technical provision:		
Claims provisions	14.074.571	12.086.692
Premium provisions	5.012.029	4.805.664
Risk margin	578.392	520.214
Own technical provision (net), total	19.664.992	17.412.569

The estimated claims provisions are reported less estimated salvage value of the assets that were damaged. The total salvage value at year-end 2019 and 2018 is immaterial.

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

32. Technical provisions, contd.

	Total	Reinsurer's share	Own share
Development of claims provisions due to claims from older accident years in 2019			
Claims provisions at beginning of year	12.725.055	(638.363)	12.086.692
Paid claims in the year due to older accident years	(6.827.785)	299.929	(6.527.856)
Claims provisions due to older accident years at end of year	(7.528.209)	315.365	(7.212.844)
The change in the effect of discounting of older accident years	604.512	0	604.512
Development of claims from older accident years	(1.026.427)	(23.069)	(1.049.496)
Proportional change in assessment of claims for older accident years	(8,1%)	3,6%	(8,7%)
Claims incurred in the year 2019			
Claims paid	5.094.149	(124.701)	4.969.448
Claims provisions for claims incurred	6.870.965	(9.238)	6.861.727
Claims incurred in the year	11.965.114	(133.939)	11.831.175
Claims provisions due to older accident years at end of year	7.528.209	(315.365)	7.212.844
Claims provisions for claims incurred in 2019	6.870.965	(9.238)	6.861.727
Claims provisions total	14.399.174	(324.603)	14.074.571
Increase in risk margin in 2019	58.178	0	58.178
Increase in Premium provisions in 2019	215.072	(8.707)	206.365

	Total	Reinsurer's share	Own share
Development of claims provisions due to claims from older accident years in 2018			
Claims provisions at beginning of year	12.163.157	(424.237)	11.738.920
Paid claims in the year due to older accident years	(7.584.377)	427.580	(7.156.797)
Claims provisions due to older accident years at end of year	(6.129.442)	207.559	(5.921.883)
The change in the effect of discounting of older accident years	354.926	0	354.926
Development of claims from older accident years	(1.195.736)	210.902	(984.834)
Proportional change in assessment of claims for older accident years	(9,8%)	(49,7%)	(8,4%)
Claims incurred in the year 2018			
Claims paid	5.733.734	(124.681)	5.609.053
Claims provisions for claims incurred	6.595.613	(430.804)	6.164.809
Claims incurred in the year	12.329.347	(555.485)	11.773.862
Claims provisions due to older accident years at end of year	6.129.442	(207.559)	5.921.883
Claims provisions for claims incurred in 2018	6.595.613	(430.804)	6.164.809
Claims provisions total	12.725.055	(638.363)	12.086.692
Increase in risk margin in 2018	43.468	0	43.468
Increase in Premium provisions in 2018	336.015	(8.022)	327.993

3.7% of the Group's net claims ratio in 2019 can be attributed to changes in the impact of the present value on loss of older years and 6.5% to negative valuation developments. In 2018, 2.3% of net claims ratio could be attributed to changes in the impact of the present value on loss to older years and 6.3% to negative valuation developments.

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

33. Borrowings

	2019	2018
Subordinated debt	2.231.048	2.173.006
Current portion	0	0
Non-current portion	2.231.048	2.173.006

In 2015, TM issued subordinated bonds amounting to ISK 2.000 million. The subordinated bonds are indexed and are considered among the solvency of the company. The bonds carry 5.25% fixed indexed interest and have a maturity of 30 years with a prepayment and a rise in interest rates to 6.25% after 10 years.

34. Trades and other payables

	2019	2018
Trade payables	554.213	531.213
Reinsurance liabilities	85.345	52.591
Short term debt and accrued expenses	442.504	421.152
Total trade and other payables	1.082.062	1.004.956

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

Financial risk management

35. Overview

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

- □ insurance risk
- □ market risk
- □ counterparty risk
- □ liquidity risk
- □ operational risk
- □ business risk

Notes 36 - 41 present information and quantitative amounts about the Group´s exposure to each of the above risks, the Group´s objectives, policies and processes for measuring and managing risk, and the Group´s capital management.

The Group´s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group´s activities. The Group, through its training and management standards and procedures, aims at developing a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

Solvency capital

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

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

Non-life underwriting risk	2019	2018
Life underwriting risk	226.185	211.228
Health underwriting risk	1.381.419	1.247.736
Non-life underwriting risk	4.659.543	4.278.438
Market risk	5.491.254	6.127.944
Counterparty default risk	2.498.541	864.658
Diversification risk	(4.360.411)	(3.625.266)
Intangible assets risk	0	0
Base Solvency Capital Requirements	9.896.531	9.104.738
Operational risk	562.206	514.521
Adjustment for the loss-absorbing capacity of deferred taxes	(1.575.420)	(1.256.974)
Total risk and Solvency Capital Requirements	8.883.316	8.362.286

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

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

36. Insurance risk

Insurance contracts

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

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

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

Non-Life insurance

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

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

Life and Health insurance

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

Insurance risk

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

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

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

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

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

Notes, contd.

36. Insurance risk, contd.

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

Own technical provision classified to line of business:	**2019**	**2018**
Property insurance	2.309.086	1.921.762
Marine, flight and cargo insurance	1.835.419	1.312.680
Compulsory Insurance for motor vehicles	8.687.993	7.469.868
Comprehensive insurance for motor vehicles	1.161.281	1.200.560
Third party liability insurance	1.804.837	1.946.376
Accident and health insurance	3.558.565	3.271.789
Life insurance	255.089	238.100
Sold reinsurances	52.722	51.434
Own technical provision total	19.664.992	17.412.569

Sensitivity analysis

The table shows the effect of changes in the interest rate curve used to discount the best estimate of claims provisions, in loss amounts and in the best estimate of Net Claims provisions, to the Group's own loss for the year and thus the Group's income before tax. A decrease in interest rates has a negative impact on the Group's own loss and increasing interest rates a positive impact. Reductions in loss amounts and liabilities have a positive effect on the Group's results, but an increase has the same effect but in the opposite direction.

	2019	**2018**
1% increase of the interest rate curve	179.073	149.403
1% decrease of the interest rate curve	(185.396)	(163.049)
5% change in loss amounts	591.559	603.356
10% change in Net Claims provisions	1.407.457	1.260.690
Confidence level that corresponds to 10% change in Net Claims Provisions	88%	87%

The Group manages its insurance risk, among other things, by making reinsurance contracts where part of the Group's risk exposure with respect to great damages is transferred to reinsurers. The Company has developed its reinsurance strategy where the Company's reinsurers shall provide an official rating from an international rating agency and minimum rating of A-. The Company thereby aims at reducing the risk that reinsurers will not pay their share in major claim events, which fall under the reinsurance contracts. The following table shows the division of premiums to reinsurers according to ratings carried out by international rating agencies, the rating is based on S&P grouping, for the year 2018 and 2019 and an estimated division for the year 2020.

	Estimate 2020	**2019**	**2018**
AA+	-	-	-
AA	-	2,9%	4,3%
AA-	40,9%	39,3%	43,5%
A+	36,1%	33,6%	30,9%
A	11,5%	8,7%	7,4%
A-	11,4%	15,6%	14,0%

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

37. Market risk

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

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

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

Market risk according to the standard formula	**2019**	**2018**
Interest rate risk	602.426	548.530
Equity risk	3.710.049	4.861.941
Property risk	403.367	0
Spread risk	1.009.419	1.050.703
Concentration risk	2.445.175	1.922.638
Currency risk	195.095	323.344
Diversification	(2.874.278)	(2.579.212)
Total	5.491.254	6.127.944

Interest rate risk

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

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

Sensitivity analysis - Interest rate risk

At year end 2019, the Group owns securities for ISK 11,497 million (2018: ISK 10,692 million) which bear fixed interests. If shifting all yield curves up 1% for these securities it is estimated to have an impact of ISK 774 million (2018: ISK 656 million) on profit before tax.

Securities risk

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

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

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

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

Sensitivity analysis - Securities risk

At year end 2019, 10% decrease in the value of domestic listed securities and 5% decrease in the value of foreign listed securities was estimated to be negative of ISK 266 million (2018: ISK 242 million). If the same method was used on both listed and unlisted securities the value change in underlying position was estimated to be in the amount of ISK 867 million (2018: ISK 880 million).

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

37. Market risk, contd.

Currency risk

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

The Group entities invests in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic krona (ISK). Effect of 10% increase (decrease) in the exchange rate index for Icelandic krona will have negative (positive) effect to Group's equity of ISK 4 million (2018: ISK 129 million).

The breakdown of assets and liabilities by currency:

	USD	EUR	NOK	Other	Total
31 December 2019					
Assets:					
Securities	363.529	372	0	159.113	523.014
Reinsurance assets	889	3.042	7.604	3.440	14.975
Accounts receivables and other assets	38.498	115.292	59.067	27.716	240.573
Cash	130.685	61.362	15.372	49.264	256.682
Total	533.601	180.068	82.043	239.533	1.035.244
Liabilities:					
Technical provision	335.217	367.809	283.124	82.333	1.068.483
Trade and other payables	736	4.167	461	6.384	11.748
Total	335.953	371.976	283.585	88.717	1.080.231
Net Balance Sheet position	197.648	(191.908)	(201.542)	150.816	(44.987)
31 December 2018					
Assets:					
Securities	233.156	24.538	822.961	404.201	1.484.856
Reinsurance assets	8.023	12.806	8.905	5.369	35.103
Accounts receivables and other assets	65.821	147.037	53.260	41.642	307.760
Cash	164.273	285.162	53.566	52.940	555.941
Total	471.273	469.543	938.692	504.152	2.383.660
Liabilities:					
Technical provision	412.428	283.718	234.844	85.394	1.016.384
Trade and other payables	5.838	67.093	4.626	3.616	81.173
Total	418.266	350.811	239.470	89.010	1.097.557
Net Balance Sheet position	53.007	118.732	699.222	415.142	1.286.103

Exchange rate according to Central Bank of Iceland:

	Year end 2019		Year end 2018	
	Buying rate	Selling rate	Buying rate	Selling rate
USD	120,81	121,39	116,05	116,61
EUR	135,45	136,21	132,86	133,60
NOK	13,73	13,81	13,36	13,44

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

38. Counterparty risk

The Company's cash is invested in bank deposits and the Company conducts limited lending operations. Other counterparties of the company are reinsurers and other customers of the company. A default or bankruptcy of the counterparty would have an impact on the valuation of their assets.

The Company's Board of Directors monitors and analyses the Company's overall credit risk on monthly basis or more often if necessary.

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

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

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

	A	BBB	Non-official Classi-fication	Total
2019				
Securities	2.105.374	4.929.325	20.980.537	28.015.235
Reinsurance assets	415.123			415.123
Loans and receivables			4.930.157	4.930.157
Cash and restricted cash	6.721	5.552.919	878.523	6.438.164
Total financial assets	2.527.218	10.482.244	26.789.217	39.798.679
2018				
Securities	2.738.342	1.686.279	22.013.803	26.438.425
Reinsurance assets	720.176			720.176
Loans and receivables			5.105.542	5.105.542
Cash and restricted cash	54.271	1.304.798	84.756	1.443.824
Total financial assets	3.512.789	2.991.077	27.204.101	33.707.968

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

38. Counterparty risk, contd.
Loans specify as follows between individuals and companies

	Loans to individuals		Loans to companies		Total	
	2019	2018	2019	2018	2019	2018
Impaired loans	12.566	8.726	4.361	4.139	16.927	12.865
Impairment on specific loans	(9.281)	(7.417)	(1.320)	(3.932)	(10.601)	(11.349)
	3.285	1.309	3.041	207	6.326	1.516
Loans in default without special impairment	3.673	19.074	43.449	11.053	47.122	30.127
Loans not in default	404.595	456.237	415.950	611.919	820.545	1.068.156
Impairment regarding credit risk	(24.431)	(19.987)	(27.468)	(26.163)	(51.899)	(46.150)
	383.837	455.324	431.931	596.809	815.768	1.052.133
Loans according to balance sheet	387.122	456.633	434.972	597.016	822.095	1.053.650

Age of loans in default without special impairment:

	1 - 3 months	3 - 6 months	> 6 months	Total
2019				
Loans to individuals	128	0	3.544	3.673
Loans to companies	4.963	5.385	33.099	43.449
Total	5.091	5.385	36.643	47.122
2018				
Loans to individuals	8.022	93	10.957	19.073
Loans to companies	10.489	0	563	11.054
Total	18.511	93	11.520	30.127

39. Liquidity risk

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

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

The Group matches the cash flows of assets and liabilities in this portfolio by estimating their average duration. The average duration is estimated using the predicted cashflow for all insurance obligations.

	2019	2018
Insurance liability - life risk (months)	4,4	6,6
Insurance liability - non-life risk (months)	16,0	16,6

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Notes, contd.

39. Liquidity risk, contd.

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

			Contractual cash flow				
2019	**Carrying amount**	**Non stated maturity**	**0-1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**>4 years**
Restricted cash	4.749		4.749				
State guaranteed securities							
State guaranteed securities	1.611.886		119.334	450.649	93.844	43.373	904.686
State guaranteed securities funds	413.670	413.670					
Bonds							
Assets guaranteed bonds	7.793.387	200.773	446.366	372.097	758.450	406.538	5.609.163
Other bonds	1.456.432	553.037	318.221	66.387	65.017	50.933	402.837
Shares							
Listed shares	2.657.141	2.657.141					
Unlisted shares	6.198.871	6.198.871					
Share certificates							
Equity funds							
Debt securities funds	5.440.740	5.440.740					
Other securities							
Other securities	2.443.108	2.443.108					
Loans and receivables	4.930.157		3.829.364	766.063	150.042	90.566	94.122
Cash	6.433.415	6.433.415					
Total	39.383.556	24.340.755	4.718.034	1.655.196	1.067.353	591.410	7.010.808
			Expected cash flows				
			0-1 year	**1-2 years**	**2-3 years**	**3-4 years**	**>4 years**
Insurance contr., net	19.086.600		9.871.393	4.799.487	2.485.504	1.054.429	875.787
Difference in cash flows	20.296.956	24.340.755	(5.153.359)	(3.144.291)	(1.418.151)	(463.019)	6.135.021
Cumulative differences	20.296.956	24.340.755	19.187.396	16.043.105	14.624.954	14.161.935	20.296.956
			Expected cash flows for other liabilities				
Other liabilities			**0-1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**>4 years**
Subordinate debt	2.231.048						2.231.048
Lease liabilities	515.197		135.728	134.332	138.364	106.773	
Derivatives	35.167		35.167				
Trade and .... other payables	1.082.062		1.033.302	48.760			
Total	3.863.474	0	1.204.197	183.092	138.364	106.773	2.231.048
Cumulative differences	(3.863.474)	0	(1.204.197)	(1.387.289)	(1.525.653)	(1.632.426)	(3.863.474)
Total cumulative differences	16.433.482	24.340.755	17.983.199	14.655.816	13.099.301	12.529.509	16.433.482

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

39. Liquidity risk, contd.

2018	Carrying amount	Non stated maturity	Contractual cash flow 0-1 year	1-2 years	2-3 years	3-4 years	>4 years
Restricted cash	4.637		4.637				
State guaranteed securities							
State guaranteed securities	2.279.996		152.433	1.551.452	157.472	353.770	64.869
State guaranteed securities funds	379.356						379.356
Bonds							
Assets guaranteed bonds	6.314.428		394.394	401.254	895.014	701.877	3.921.889
Other bonds	1.274.840		217.194	375.113	108.702	433.354	140.477
Shares							
Listed shares	2.416.969	2.416.969					
Unlisted shares	6.915.584	6.915.584					
Share certificates							
Debt securities funds	3.571.729	2.100.576	49.811	223.340	663.958		534.044
Other securities							
Other securities	3.285.522	3.285.522					
Loans and receivables	5.105.542		3.817.441	805.127	191.250	130.618	161.106
Cash	1.439.187	1.439.187					
Total	32.987.790	16.157.838	4.635.910	3.356.286	2.016.396	1.619.619	5.201.741
			Expected cash flows 0-1 year	1-2 years	2-3 years	3-4 years	>4 years
Insurance contr., net	16.892.356		8.830.912	4.117.313	2.229.729	953.690	760.712
Difference in cash flows	16.095.434	16.157.838	(4.195.002)	(761.027)	(213.333)	665.929	4.441.029
Cumulative differences	16.095.434	16.157.838	11.962.836	11.201.809	10.988.476	11.654.405	16.095.434
			Expected cash flows for other liabilities				
Other liabilities			0-1 year	1-2 years	2-3 years	3-4 years	>4 years
Subordinate debt	2.173.006						2.173.006
Trade and .... other payables	1.004.956		956.952	48.004			
Total	3.177.962	0	956.952	48.004	0	0	2.173.006
Cumulative differences	(3.177.962)	0	(956.952)	(1.004.956)	(1.004.956)	(1.004.956)	(3.177.962)
Total cumulative differences	12.917.472	16.157.838	11.005.884	10.196.853	9.983.520	10.649.449	12.917.472

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

40. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group’s operations. The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation. To reduce operational risk there are among other things requirements for appropriate segregation of duties, requirements for the reconciliation and monitoring of transactions, compliance with regulatory and other legal requirements, requirements for the periodic assessment of operational risks faced, training and professional development. The Group's management information security is certified according to ISO 27001 standard.

41. Business risk

As with other companies operating in the competitive market, the business comes with a variety of business risks that are largely dependent on the Group's decisions and policies. The business also includes business risks such as risk factors related to the Group's plans, the competitive and economic environment and marketing that may harm the reputation of the Group.

The Group makes a five-year strategic plan that defines the Group's vision and overall policy. Among other things, it is based on analyzes of external economic conditions, the competitive environment and the position of the Group. The strategy of the Board of Directors and management has been aimed at closely monitoring market conditions, operating environment and the opportunities that lie there. Performing this role of ambition can achieve greater operational success and limit the impact that strategic risk can entail. The Group closely monitors all major news and communication media in Iceland. For the same purpose, TM has set rules for communicating with the media. Incidents such as violations of law, investigation or house search are likely to affect the image of companies. TM has prepared contingency plans for such events to minimize their impact.

42. Capital management

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

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

43. Related parties

Definition of related parties

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

Transactions between the Company and it´s subsidiaries are accounted for as related party transactions. All transactions with subsidiaries are eliminated at consolidation and are therefore not presented in the related party transaction statement. See note 44 for an overview of consolidated companies.

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

	Income	Expenses	Assets	Liabilities
2019				
Board, key personnel and related companies	8.247	6.990	2.509	49
2018				
Board, key personnel and related companies	181.537	5.896	2.380.048	26

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

43. Related parties, contd.

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

	2019		2018	
	Salaries and benefits funds	Contrib. to pension funds	Salaries and benefits funds	Contrib. to pension funds
Sigurður Viðarsson, CEO	51.028	6.332	55.017	6.426
Örvar Kærnested, Chairman of the Board	10.869	1.467	10.166	1.298
Andri Þór Guðmundsson, Board Member	5.897	678	5.488	590
Kristín Friðgeirsdóttir, Board Member	5.801	667	5.574	601
Einar Örn Ólafsson, Board Member	5.522	635	5.574	590
Ragnheiður Elfa Þorsteinsdóttir, Board Member	5.897	678	5.306	572
Bjarki Már Baxter, Board Member	440	51	425	43
Bryndís Hrafnkelsdóttir, Board Member	440	51	425	43
Margrét G. Flóvenz, audit committee	1.128	130	0	0
Anna Skúladóttir, audit committee	364	0	900	54
Executives (5)	158.093	21.247	159.480	20.467
	245.479	31.936	248.355	30.684

At year end 2019, the Company's CEO owns in total 3,872 thousand shares (2018: 3,402 thousand shares) in the Company through a company owned by him. Chairman of the Board owns no shares (2018: 13,000 thousand shares in the company through a company owned by him) and other board members 120 thousand shares or through a company owned by them (2018: 19.711 thousand shares). Furthermore three executives own 1,714 thousand shares (2018: 1,480 thousand shares) in the company.

At year end, unpaid salary bonus payments due to key management amounted to ISK 24 million.

44. Group entities

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

	Location	Share 2019	Share 2018
Íslensk endurtrygging hf.	Iceland	100,0%	100,0%
Líftryggingamiðstöðin hf.	Iceland	100,0%	100,0%
TM fé ehf.	Iceland	100,0%	100,0%
TM tryggingar hf.	Iceland	100,0%	100,0%

45. Financial Ratios

The Group's principal financial ratios	2019	2018
Net claims ratio	83,6%	83,9%
Net cost ratio	18,3%	19,9%
Net combined ratio (claims + cost)	101,9%	103,9%
Equity ratio	42,0%	38,4%
Return on equity	13,0%	5,3%

Consolidated Financial Statements of TM hf. 2019 Amounts are in ISK thousands

Notes, contd.

46. Other informations

TM signs a contract on the acquisition of Lykill financing

On July 21st 2019, TM hf. (TM) started exclusive negotiations with Klakki ehf., owner of Lykill fjármögnun hf. (Lykill), in order to acquire Lykill. These negotiations concluded on October 10th with the signing of a purchase agreement to acquire 100% stake in Lykill. The purchase price is ISK 9,250 million plus a payment equal to the amount of distributable after-tax-profit of Lykill for the operating year of 2019 that TM pays to the seller.

The transaction was subject to three conditions: the approval of TM´s shareholder meeting, the Financial Supervisory Authority and the Competition Authority. The purchase was approved at TM's shareholder meeting on November 13 2019, by the Competition Authority on November 15 2019 and on December 23 the Financial Supervisory Authority approved TM as Lykill´s owner. Accordingly all conditions have been met.

On January 7th 2020, the purchase was concluded by the payment of the purchase price, apart from the 2019 after-tax-profit of Lykill. Hence Lykill has now become a part of the TM group.

The acquisition of Lykill is in accordance with TM's strategy and TM's operations will from now on be divided into three equally important pillars; insurance operations, lending activities and investment activities. The acquisition creates considerable opportunities to increase profitability, obtain synergies both on the revenue and the cost side, increase funding options, lower funding cost and gain a more efficient capital structure. Various integration projects to meet synergies goals have already begun.

Lykill´s operations will in the coming weeks be moved to TM´s headquarters at Síðumúli 24 with the aim to finalize the relocation by the end of February 2020.

47. Quarterly results (unaudited)

	Q4	Q3	Q2	Q1	Total
Premiums earned	4.341.593	4.382.953	4.153.196	3.989.284	16.867.026
Outward reinsurance premiums	(161.549)	(161.385)	(161.036)	(175.462)	(659.432)
Earned premiums, net of reinsurance	4.180.044	4.221.568	3.992.160	3.813.822	16.207.594
Finance income	847.304	(337.154)	1.483.345	951.685	2.945.180
Other income	6.676	6.596	7.573	8.256	29.101
Total income	5.034.024	3.891.010	5.483.078	4.773.763	19.181.875
Claims incurred	(3.720.863)	(3.404.354)	(3.177.708)	(3.351.307)	(13.654.232)
Claims incurred, reinsurers' share	(43.965)	35.311	85.137	34.387	110.870
Claims incurred, net of reinsurance	(3.764.828)	(3.369.043)	(3.092.571)	(3.316.920)	(13.543.362)
Operating expenses	(942.150)	(728.855)	(876.943)	(893.042)	(3.440.990)
Interest expense	(48.598)	(64.605)	(64.542)	(51.197)	(228.942)
Impairment	(16.105)	(14.224)	(6.543)	(58.996)	(95.868)
Total expenses	(4.771.681)	(4.176.727)	(4.040.599)	(4.320.155)	(17.309.162)
Profit before income tax	262.343	(285.717)	1.442.480	453.608	1.872.712
Income tax	84.905	34.357	(105.562)	(20.759)	(7.059)
Profit and Comprehensive Income for the year	347.248	(251.360)	1.336.918	432.849	1.865.653
Attributable to					
Equity holders of the parent	347.248	(251.360)	1.336.918	432.849	1.865.653

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Supplement to note 32 (unaudited)

Development og the Claims provisions and risk margin

The upper part of the chart (total amounts) shows how the Group values its ultimate claims cost for the last years. The lower part of the chart (own claim) the reinsurers' share has been deducted from the amounts stated in the upper chart. At year end 2014 the Group changed accounting policy for estimating claims outstanding. Below, the numbers for the years 2010-2013 are revalued with simplified method of the new method. The table below is changed from last years as the risk margin is shown seperately and not for each year. Numbers from earlier years are changed accordingly.

Total amounts
In million

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Samtals
Estimate of ultimate claims cost at year end:											
-at end of claim year	7.034	7.817	8.446	9.284	10.221	10.445	11.264	10.863	12.329	11.965	
-after one year	7.340	8.281	8.168	9.211	10.493	10.699	11.441	11.316	12.916		
-after two years	7.380	8.201	7.658	9.072	10.593	11.100	11.904	11.665			
-after three years	7.195	7.776	7.486	8.927	10.885	11.539	12.177				
-after four years	7.194	7.777	7.618	9.061	10.926	11.718					
-after five years	7.167	7.801	7.760	9.115	11.108						
-after six years	7.182	7.841	7.788	9.177							
-after seven years	7.192	7.870	7.811								
-after eight years	7.219	7.875									
-after nine years	7.220										
Assessment of ultimate claims cost at year end 2019 ...	7.220	7.875	7.811	9.177	11.108	11.718	12.177	11.665	12.916	11.965	103.632
Cumulative payments at year end 2019	(7.210)	(7.860)	(7.783)	(9.127)	(10.853)	(11.310)	(11.274)	(10.015)	(8.789)	(5.094)	(89.314)
Claims provisions and risk risk margin at year end 2019	10	15	28	50	255	408	903	1.650	4.127	6.871	14.318

Claims provisions in respect of prior years (2009 and earlier)	18
Total Claims Provisions at the end of year 2019	14.399
Risk Margin	578
Claims provisions for life insurance (included above)	62

Claims, own
In million

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Samtals
Assessment of ultimate claims cost at year end 2019	7.040	7.262	7.642	8.688	10.137	11.326	11.319	11.361	12.264	11.893	98.931
Cumulative payments at year end 2019	(7.030)	(7.247)	(7.613)	(8.638)	(9.881)	(10.931)	(10.419)	(9.857)	(8.289)	(5.031)	(84.937)
Net Claims provisions and risk margin at year end 2019	10	15	29	50	256	395	900	1.504	3.975	6.862	13.994

Net Claims provisions in respect of prior years (2009 and earlier)	81
Net Claims Provisions at the end of year 2019	14.074
Risk Margin	578