Valitor Holding hf.

Consolidated Financial Statements

2017

Valitor Holding hf.
Dalshraun 3
220 Hafnarfjordur

Reg.no. 511207-0100

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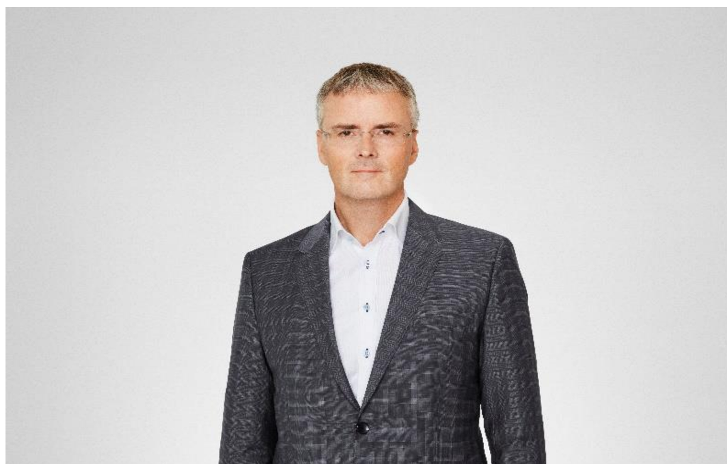
Letter from the CEO

Valitor continued on its growth journey in 2017, finishing the year with total revenue of ISK 19,976 million, which is 32% growth over 2016 revenue of ISK 15,129 million. At the same time, total number of transactions grew from 271 million in 2016 to 464 million in 2017, an increase of 71%. 2017 was a year of transition, some key acquisitions were made, the company continued to invest in growth, and competition was fiercer than ever before. The company faced some challenges during the year, which overall resulted in an EBITDA loss of ISK 648 million, which includes one-off OPEX expenses of ISK 275 million. Profit for the year for Valitor Holding hf. was ISK 940 million mainly due to positive fair value changes in financial assets. Valitor is a financially strong company with equity at the end of 2017 of ISK 16,249 million.



Viðar Þorkelsson, Group CEO

Valitor continued to execute on its focused and differentiating strategy for both acquiring and issuing, which involves development and expansion through partners in Iceland and Europe, and with direct end-to-end services to the market through merchant acquiring in Iceland and via subsidiaries in the UK and Nordics.

Valitor made two highly strategic acquisitions during the year. In April, Valitor acquired IPS (International Payments Services Limited), a UK based company that specialises in providing a payment terminal (POS) gateway for pan-European retailers. From a single installation, pan-European customers can deploy our terminals across Europe and begin transacting right away. This is a unique value proposition. The sales and services part of IPS has been merged with AltaPay, Valitor's subsidiary in Denmark, to provide state-of-the art Omni channel payment solution. With our Omni channel solution a retailer can, for example, offer its customers a seamless buying experience whether they shop in-store, on-line or via mobile devices, and the customers can buy on-line and return in-store – the user experience is the same for the customers regardless of the sales channel they choose to use. Merchants benefit in many ways; e.g. with increased sales, customer satisfaction, single reporting and reconciliation for finance covering all sales channels, and better customer data and analytics.

In June, Valitor acquired Chip & PIN Solutions, one of the premier and highly regarded ISOs (Independent Sales Organisations) in the UK, selling POS terminals and acquiring services to small and medium size merchants. Back in 2014, Valitor founded Markadis to sell payment solutions directly to UK customers. At the time of the acquisition of Chip & PIN Solutions, Markadis had gained around 2.000 customers, and the operation of Markadis was merged with Chip & PIN Solutions in the autumn. The combined company has over 8.000 customers.

The two acquisitions have been well received by the industry, advisors and media as a strong strategic move for Valitor in gaining competitiveness and as a strong challenger in the European payments landscape.

At year-end 2017, there were 360 employees of 30 nationalities working in Valitor's six offices in Reykjavik (headquarters in Iceland), London, Copenhagen, Slough (UK), Bishop's Stortford (UK) and Leeds (UK). This is an increase of 88 people from year-end 2016.

Valitor is constantly seeking to optimise performance and for opportunities to strengthen its international talent pool. On that note, Valitor made some key recruitments in 2017 and added international industry business leaders to its management team.

*** All numbers based on audited Comprehensive Income and Balance Sheet**

Letter from the CEO, contd.:

Valitor had some challenges in 2017

- Growth vs. cost: Majority of Valitor's revenues are in international currencies. With the continued strengthening of the Icelandic krona, the home currency, the cost of doing business increased yet again in 2017. Furthermore, annual salary hikes in Iceland over the last few years have increased cost base, affecting profitability. Economic forecasters do not envision the krona weakening in the near term, so to address this, Valitor made some organisational changes in the autumn. Boarding and Monitoring functions are being moved from Iceland to the Chip & PIN Solutions offices in the UK. Also, customer support for the London based Partnerships unit will be moved to the UK.
- In addition to the above changes, Operations and Product Development were merged from two separate units into one in November.
- In late 2017 Valitor's long-time largest international partner in acquiring informed Valitor that it has planned to become its own acquirer in 2018. This will have negative effect on revenue and the Group´s number of transactions processed going forward, as the relationship will gradually phase out during 2018.
- Changing payments landscape: Never in the history of payments has there been as much technological change and advancement as in the last few years, which will continue to shape and shift the industry over some time to come. Competition is increasing with downward pressure on margin in all markets. Regulation is also shaping the industry in many ways; European PSD2 (Payment Services Directive) and GDPR (General Data Protection Regulation) are effective in 2018 and will drive innovation and have impact on various roles in the payments value chain and on industry forces affecting competitiveness, all for the ultimate benefit of consumers, whose behaviour and preferences has also dramatically changed over time.

Management team

Letter from the CEO, contd.:

Change in Strategy

In December a new strategy was approved by the board of directors. With the new strategy, the key emphasis is on leveraging the competitive advantages that Valitor has in the Direct channel, a strong value proposition for SME (small and medium) businesses in Iceland, UK and Ireland, and the unique Omni channel proposition for pan-European retailers. The Partner channel will though continue to be a key pillar to the Group´s business going forward. The high volume experienced in the Partner channel comes with lower margin but importantly contribute to lower per unit cost, making the payments proposition more competitive for the organisation collectively. The primary components of Valitor's strategy going foward are:

- Invest for growth – significant increase in R&D and sales and marketing activities
- Increased focus on Direct channel – to become the preferred Omni channel payment solutions provider for pan-European companies
- Develop and bring new and differentiating products to market
- Differentiate on customer intimacy – service excellence and IT service levels

A key factor in Valitor's success is the strategy of developing its own payments issuing and acquiring platforms and related payment solutions, that enable the company to differentiate when helping merchants and cardholders to make payments and to make buying and selling less complicated. Valitor is one of the larger software developers in Iceland and plans to increase its investment in R&D significantly in 2018.

Valitor has always been concerned with corporate social responsibility, both in regard to its internal and external activities. In 2016, Valitor signed an agreement with the Iceland Carbon Fund to offset air travel and company car use in coming years. Green procurement standards that are guided by sustainability considerations with suppliers and service providers are in the process og being implemented. And in 2017 Valitor partnered with Klappir Grænar Lausnir hf. with a solution addressing energy consumption and mapping of our eco-footprint.

Through Valitor's Community Fund, the company continued to support important projects and issues in the community in 2017 as it has for the past 26 years.

The Icelandic Financial supervisory authority (Fjármálaeftirlitið) conducted a detailed review of Valitors measures against Money Laundering and Terrorist Financing (AML program audit), and concluded that Valitor was in good order and the regulator believes the management of Valitor has the right attitude towards supervision and guidance.

The vision and strategy of the company is clear, and we know what we must do and the objectives to achieve to make 2018 a successful year on our exciting journey to becoming a leading payments solutions company and recognised for our innovative and differentiating approach. Our core values are Trust, Collaboration and Initiative. With our solid foundation, strategy and ability to execute, we have all the building blocks squarely in place to be successful together in the future.

I wish our employees and board members all the best and much success in the year 2018 while expressing my appreciation for the excellent and successful cooperation experienced during the past year.

Vidar Thorkelsson, Valitor CEO

Endorsement by the Board of Directors and CEO

Operations in 2017

These Consolidated Financial Statements for Valitor Holding hf. are prepared in accordance with IFRS as adopted by the European Union and additional requirements according to Act no. 3/2006.

The Group's main purpose is to own and operate companies related to payment services. Valitor is an innovative payment services company operating internationally building on its core values of trust, initiative and collaboration. Valitor's role is to provide its customers with services facilitating successful card payment transactions.

The Group's total comprehensive income amounted to ISK 969 m. with a profit of ISK 940 m. according to the Statement of Comprehensive Income. The equity of the group at the end of the year amounted to ISK 16,249 m.

During the year the group had on average of 302 employees and paid total of ISK 3,645 m. in salaries. The Board of Directors were 60% male and 40% female. Executive Directors were 16.7% female and 83.3% male.

Valitor Holding hf. is a subsidiary of Arion Bank hf. Share capital amounted to ISK 400 m. at year end and is fully owned by Arion Bank and related companies, as at the beginning of the year.

The Board of Directors proposes that net earnings be added to equity and that no dividend be paid in 2018 for the fiscal year 2017.

Future Prospects

The Board of Directors and the CEO believe that it is necessary to maintain at all times sufficient equity in order to support further growth and meet unexpected events.

The Group will continue to invest in and pursue a growth strategy and penetrate international markets. By doing so the Group forfeits short-term profitability for long-term value creation. The Board of Directors has assessed the going concern of the Group and is satisfied that the Group has the resources to continue in business in the foreseeable future (see also note 29). The Group's future operating return is affected by operating requirements set by official authorities and the card associations. Significant changes to current operating conditions may affect the Group's financial return.

Risk Management

The Group faces various risks associated with its subsidiaries operating as financial undertakings that stem from their daily operations. Risk management is therefore a fundamental part of the Group's operations. The main pillars of active risk management are identification of risk, numerical quantification of the risks identified, the actions taken to mitigate or eliminate those risks and active monitoring. Note 4 in the accounts further discusses the risk management of the Group.

Board of Directors, Jónína Sigrún Lárusdóttir, Stefán Pétursson, Roger Keith Alexander,
Synnöve Trygg and Guðmundur Þorbjörnsson, Chairman of the Board

Endorsement by the Board of Directors and CEO, contd.:

Corporate Governance

The Board of Directors of Valitor Holding hf. emphasises the maintenance of good corporate governance. The Board of Directors has established comprehensive guidelines wherein the Board's authority is defined as well as scope of work in relation to the CEO. These rules include i.e. rules regarding conduct of meetings, comprehensive rules on participation of conflicted board directors in discussions and decisions of issues presented to the Board, rules on confidentiality, and rules on information disclosure by the CEO to the Board and other issues. The Group's Board of Directors determines the CEO's terms of employment and meets regularly with the Group's auditors.

Valitor values, code of ethics and policy on social responsibility

There are three Valitor values: trust, collaboration and initiative. In its work, Valitor places strong emphasis on employees in the Group being able to identify with and adopt group values. The most valuable asset of a financial undertaking is trust and credibility which in turn is decided by the ethics of its employees. Valitor aims to fulfill an equal pay policy in the next 12 months.

Valitor focuses on ensuring the trust and credibility of the Group and its employees towards shareholders, customers, and society. Education and increased employee knowledge, along with the group's rules of behaviour, are vital ingredients, though the end result will always depend on the mindset of each employee. Employees of the company participated in an average of more than 25 hours each in various learning experiences in 2017 in order to maintain and enhance their own knowledge in a dynamic business and technology environment. Managers make great efforts to create the framework and culture that is most likely to foster and enhance the ethics of the group's employees. Valitor's business code of ethics is kept at the forefront and contains the moral values and codes of conduct used by employees in their work. Valitor does not tolerate bribery or corruption in any form and is committed to applying standards of honesty and integrity consistently across its operations and in all its business dealings.

Social responsibility

Valitor realizes that the Group not only has an economic impact on their local environment, but a high environmental and social impact as well. Valitor has always seen social responsibility as a guiding principle, both in internal and external conduct and actions including the Group’s relationship with employees, customers, employees, service providers and with the larger community. Valitor is a responsible member of the Icelandic community and aspires to participate in its development. Valitor's social responsibility lies not least in the Group conducting its role in a conscientious manner, ensuring quality service for its customers, being mindful of environmental protection and creating good working conditions for its employees. Valitor also provides worthwhile support for specific causes which enhance life in the community and strengthen it.

Valitor's policy is to be a model for environmental issues, and the goal is to minimize the Group’s negative environmental impact by practicing sustainability. A significant component in this endeavour is to contribute to the reduction of greenhouse gas emissions in the battle against global warming. Valitor has endorsed the climate statement of Festa (the Icelandic center of corporate social responsibility) and the City of Reykjavík and has defined its objectives in this field. Negative environmental impact resulting from company operations will be minimised by reducing carbon emissions and the use of energy by the Group. The Group plans to offset carbon emissions from all company transport and to renew the Group’s vehicle fleet with electric or hybrid vehicles. Currently the Group has replaced three of four vehicles for general use with electric cars. The Group aims to be carbon neutral by the end of 2020 and to reduce net greenhouse gas emissions by 10% per annum. In order to achieve these objectives, the Group has introduced transport grants to its employees encouraging them to use environmentally friendly options for travel to and from work. Valitor hf. further intends to introduce eco-friendly procurement and to support environmental considerations in its transactions with suppliers and service providers. Environmental education for employees will furthermore be increased and they will be encouraged to adopt an environmentally-friendly lifestyle.

Through Valitor's Social Fund, established by the Company in 1992, Valitor also supports important issues that enhance the local community and society. The Fund annually provides grants to charity and cultural associations, young artists, and various nation-wide projects. The Company also participates in several partnerships with sports and outdoor organizations.

The Group wants to have a positive impact on society and stakeholders by, among other things, publishing the annual status of projects and achievements in environmental and social affairs. For this purpose, basic energy consumption, recyclable waste and transport data will be compiled for the years 2016 and 2017, and the results will be published first in 2018. Valitor began a partnership with Klappir Grænar Lausnir hf. in 2017, and is setting up a software solution for managing energy consumption of its operations and mapping its eco-footprint which can then be communicated to employees, customers, government agencies and consumers.

Company objectives for reduction of greenhouse gas emissions can be found on the company's homepage.

Endorsement by the Board of Directors and CEO

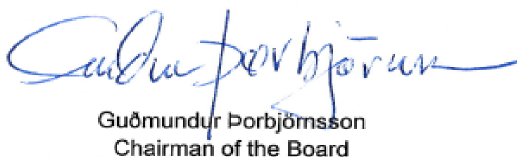
According to the best knowledge of the Board of Directors and the CEO, the Group's consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of assets, liabilities and financial position as of 31 December 2017, and its operating return and changes in cash during the year 2017.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and the endorsement by the Board of Directors include a fair overview of the development and results in the Company's operation, its position, and describes the main risk factors and any uncertainty that the Company may face.

The Board of Directors and the CEO of Valitor Holding hf. have today discussed the Company's Financial Statements for the year 2017 and confirm them with their signatures. The Board of Directors and the CEO submit the financial statements to the Annual General Meeting for approval.

Hafnarfjörður, 16 February 2018

The Board of Directors:



Guðmundur Þorbjörnsson
Chairman of the Board

Þórbergur Guðjónsson

Roger Keith Alexander

Stefán Pétursson

Synnöve Trygg

Viðar Þorkelsson
CEO

Independent Auditor's Report

To the Board of Directors and Shareholders of Valitor Holding hf.

Opinion

We have audited the consolidated financial statements of Valitor Holding hf. for the year ended December 31, 2017 which comprise the statement of comprehensive income for the year 2017, the balance sheet as at 31 December 2017, the statement of changes in equity for the year 2017, the statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Valitor Holding hf. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Valitor Holding hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the letter from the CEO and the endorsement by the board of directors and CEO.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Board of Directors and the CEO are responsible for assessing Valitor Holding hf.'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 Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report, contd.:

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.

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

• Identify and assess the risks of material misstatement of the consolidated 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 Valitor Holding hf.'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 Company'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 Company 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 consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

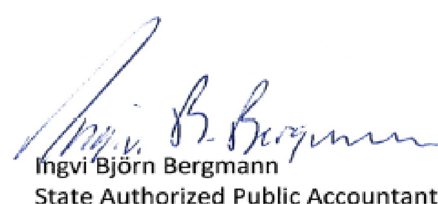
• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit.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

We communicate with the Board of Directors 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 the Board of Directors 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.

Kópavogur, 16 February 2018

Deloitte ehf.



Statement of Consolidated Comprehensive Income for the year 2017

INCOME STATEMENT	Notes	2017	2016
Operating revenue			
Fee and commission income		19,086,130	14,223,877
Other operating revenues		889,543	905,015
Total operating revenues		19,975,673	15,128,892
Operating expenses			
Fee and commission expense		14,236,837	9,796,538
Salaries and salary-related expenses	7	3,644,734	2,814,759
Depreciation and amortization	16	834,253	650,734
Other operating expenses	8	2,742,397	2,276,315
Total operating expenses		21,458,221	15,538,347
Operating loss		(1,482,548)	(409,455)
Financial income and (expenses)			
Financial income		349,457	213,522
Financial expense		(234,206)	(124,758)
Net income on financial assets and liabilities		2,212,225	7,361,183
Total finance income and (expenses)	10	2,327,475	7,449,947
Profit before tax		844,927	7,040,492
Income tax	11	94,862	310,274
Profit for the year		939,788	7,350,766
OTHER COMPREHENSIVE INCOME			
Fair value changes of available-for-sale financial assets, net of tax		0	(4,514,111)
Foreign currency translation differences of foreign subsidiaries		29,711	247,366
Other comprehensive income for the year		29,711	(4,266,745)
Total comprehensive income		969,500	3,084,021
EBITDA		(648,295)	415,883

Notes on pages 15 to 45 are an integral part of these financial statements.

Consolidated Balance Sheet as at 31 December 2017

	Notes	2017	2016
Assets			
Cash	13	24,727,929	24,228,311
Restricted cash	13	6,957,565	748,934
Receivables from credit institutions		2,120,787	2,572,216
Loans	14	2,785,463	3,733,298
Financial assets at fair value	15	2,843,565	1,545,850
Deferred tax assets	21	234,638	143,823
Property, plant and equipment	16	548,121	409,363
Intangible assets	17	6,441,590	4,082,299
Other assets	18	3,339,063	1,897,806
Total assets		49,998,722	39,361,899
Liabilities			
Settlement obligations	3p	25,335,011	22,006,068
Payable to credit institutions	19	14,035	332,618
Borrowings	20	5,808,922	0
Current income tax	11	0	74,092
Deferred tax liabilities	21	188,823	26,212
Other financial liability	15	88,844	0
Other liabilities	22	2,314,501	1,643,823
Total liabilities		33,750,137	24,082,813
Equity			
Share capital		400,000	400,000
Share premium		1,614,189	1,614,189
Restricted equity		3,216,389	1,530,479
Other reserves		289,148	259,437
Retained earnings		10,728,859	11,474,980
Total equity	23	16,248,585	15,279,085
Total equity and liabilities		49,998,722	39,361,899

Notes on pages 15 to 45 are an integral part of these financial statements.

Statement of Changes in Equity for the year 2017

2017	Share capital	Share premium	Restricted equity	Other reserves	Retained earnings	Total
Equity as at 1 January 2017	400,000	1,614,189	1,530,479	259,437	11,474,980	15,279,085
Profit for the year	0	0	0	0	939,788	939,788
Moved to restricted equity	0	0	1,685,910	0	(1,685,910)	0
Other compreh. inc. for the year	0	0	0	29,711	0	29,711
Total comprehensive income	0	0	1,685,910	29,711	(746,122)	969,499
Equity as at 31 December 2017	400,000	1,614,189	3,216,389	289,148	10,728,859	16,248,585

2016	Share capital	Share premium	Restricted equity	Other reserves	Retained earnings	Total
Equity as at 1 January 2016	400,000	1,614,189	0	4,526,182	5,654,694	12,195,065
Profit for the year	0	0	0	0	7,350,766	7,350,766
Moved to restricted equity	0	0	1,530,479	0	(1,530,479)	0
Other compreh. inc. for the year	0	0	0	(4,266,745)	0	(4,266,745)
Total comprehensive income	0	0	1,530,479	(4,266,745)	5,820,287	3,084,021
Equity as at 31 December 2016	400,000	1,614,189	1,530,479	259,437	11,474,980	15,279,085

Statement of Consolidated Cash Flows for the year 2017

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		939,788	7,350,766
Operating items not affecting cash flows:			
Gain on sale of assets		0	(6,503)
Depreciation and amortisation	16,17	834,254	650,734
Net income on financial assets and liabilities		(2,212,225)	(7,361,183)
Income tax		(94,862)	(310,274)
Operating activities total		(533,045)	323,541
Changes in operating assets and liabilities:			
Settlement obligation, change		3,328,939	868,322
Loans, change		947,835	(182,737)
Other operating assets, change		(388,394)	165,751
Other operating liabilities, change		638,746	(4,703,429)
Changes in operating assets and liabilities total		3,994,081	(3,528,552)
Financial income received		349,457	213,522
Financial expense paid		(234,206)	(124,758)
Income tax paid		(56,659)	(140,792)
Cash flows from (to) operating activities		4,052,673	(3,580,580)
Cash flows from investing activities			
Investment in subsidiaries	30	(1,872,541)	0
Investment in property, plant and equipment	16	(364,370)	(194,988)
Investment in restricted cash	13	(6,211,944)	0
Investment in intangible assets	17	(829,024)	(783,424)
Proceeds from sale of VISA Europe Ltd.		0	7,117,714
Proceeds from sales of associate		0	32,362
Proceeds from sales of property, plant and equipment	16	0	7,522
Investing activities		(9,277,879)	6,179,187
Cash flows from financing activities			
New borrowings		8,071,253	0
Repayment of borrowings	20	(2,634,271)	(1,747,078)
Financing activities		5,436,982	(1,747,078)
Cash and cash equivalents, increase		211,776	851,529
Effect of exchange rate fluctuations on cash held		287,842	(780,282)
Cash and cash equivalents at the beginning of the year		24,228,311	24,157,065
Cash and cash equivalents at year end	13	24,727,929	24,228,311
Investing and financing activities not affecting cash flows:			
Fair value of available-for-sale financial assets		0	(4,514,111)
Commitment to purchase non-controlling interests, change		(54,591)	(38,658)

Notes on pages 15 to 45 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

General information

1. Reporting entity

Valitor Holding hf. has its headquarters at Dalshraun 3, Hafnarfjordur Iceland. The Valitor Holding Group consists of the following entities over which the Group has control:

Valitor hf.	Chip & PIN Solutions Ltd.
VISA Ísland ehf.	IPS - International Payment Services Ltd.
Vildarkerfi ehf.	Iteron Holding DK ApS.
Iteron Holding Ltd.	AltaPay A/S.
Valitor Payment Services Ltd.	AltaPay Gmbh.
Markadis Ltd.	AltaPay Inc.

Control is defined as when the Group has exert power over the held legal entity, is exposed or has rights to variable returns from its involvement with the held legal entity and at the same time has the ability to use its influence to affect its returns. The Group reassess whether or not it controls a held legal entity, if facts and circumstances indicate that there are changes to one or more of these elements.

Valitor hf. operates as an authorised Credit Undertaking (type of Credit Institution) by the Icelandic Financial Supervisory Authority under Icelandic implementation of the EU banking directives; Valitor Payment Services Limited operates as an authorised Electronic Money Institution by the UK’s Financial Conduct Authority under UK implementation of EMD and PSD2; and Markadis Limited who had not provided regulated services returned its authorisation as a Payment Institution, to the Financial Conduct Authority in December 2017, following a transfer of its assets and liabilities to Chip & PIN Solution Limited.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries, together referred to as the "Group" and to single entities as "Group entities".

Valitor Holding hf.'s objective is to hold shares in other legal entities that fit with its investment strategy.

The Financial Statements were approved and authorised for issue by the Board of Directors of Valitor Holding hf. on 16 February 2018.

2. Basis of preparation

a) *Statement of compliance*

The Company's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

b) *Basis of measurement*

The Financial Statements have been prepared on the historical cost basis except for other financial assets, which are recognised at fair value.

Methods of measuring fair value are described in note 3. h(v).

c) *Functional and presentation currency*

The financial statements are presented in Icelandic krona (ISK), which is the Company's functional currency. Financial information has been rounded to the nearest thousand unless otherwise stated. At the end of the period the exchange rate of the ISK against the GBP was 140.98 and 16.80 for the DKK (31.12.2016: GBP 138.91 and DKK 16.02).

d) *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. This estimate and related presumptions are based on experience and various other factors that are considered reasonable under the relevant circumstances and form a basis for decisions made on the book value of assets and liabilities not available by other means. Actual results may differ from these estimates.

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The financial statements are prepared using the same accounting policies as for the previous year.

a) *Foreign currency*

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the exchange rates at the transaction date. 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. Other assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised through profit or loss except for foreign currency differences arising from foreign companies classified as available-for-sale assets and denominated at fair value, where it is recognised in other comprehensive income as part of fair value changes of the shares.

b) *Fee and commission income and expenses*

Valitor collects fees and commission from domestic and international customers. This revenue is based on volume amount processed, per transaction processed, account on file fees or subscription fees.

For acquiring the following represent the main income categories:

- Merchant service charge
- Terminal income
- Interest income on merchant float
- Gateway fee
- Currency exchange services

For issuing the main income categories are:

- Processing fees
- Load fees
- Currency exchange services

Income is recognised in the statement of comprehensive income in the period that it is earned. In addition, various service fees are collected that relate to transacting with customers. Those service fees are related to services that the Group purchases from suppliers.

c) *Finance income and expenses*

Finance income and expenses are recognised in the statement of comprehensive income using the effective interest method on the date they are incurred. Finance income and expenses include the amortisation of discounts and premiums and other differences initially stated between the book value of the financial instrument and due amounts based on the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability, or where appropriate, a shorter period, to the carrying amount of the financial asset or liability. In calculating effective interests the Group estimates cash flow in relation to all contractual terms of the financial instrument but does not allow for future losses on loans.

If a financial asset or a portfolio of comparable financial assets have been impaired, interest income is recognised on the basis of the same imputed rate of interest as used in the calculation of the impairment loss. Financial income on financial assets that have been written down due to impairment losses are calculated on the recoverable amount of financial assets where impairment loss has been taken into account.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

In 2016 a decision was made to reclassify the capital gains of the company, arising from capital the Company holds on behalf of its clients in acquiring in Iceland, and classify them among commission income in the income statement. Additionally, capital gains from the loan portfolio were reclassified to other operating revenue.

3. Significant accounting policies, continued:

c) *Finance income and expenses, continued:*

Acquiring customers of Valitor in Iceland receive either monthly settlements, where turnover is paid out on the first working day of the following month, or they receive daily settlements. Valitor is able to use capital from the funds of customers that Valitor receives daily and are paid out monthly and can thus offer clients with monthly statements better terms than those receiving daily settlement. Quotes on business rates take into account the interest conditions at the time with the aim of insuring that Valitor is equally well protected whether a merchant receives daily or monthly settlements.

The term income is defined as gross inflows of economic proceeds during the period arising in connection with core company operations which lead to increase in equity. The capital gains which Valitor benefits from on funds settled monthly with acquiring customers are thus part of core company operations, as these interests are directly related to when settlement is made.

d) *Dividend income*

Dividend income is recognised on the date that the right to receive payment is established, which is usually the ex-dividend date. Dividend income other than from subsidiaries and associated companies is recognised in net income (expenses) on financial assets and liabilities.

e) *Income tax*

Income tax in the financial statements comprises current and deferred/unrealised tax. Income tax is recognised through profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or other comprehensive income when applicable. Income tax that has been recognised in other comprehensive income is transferred to profit or loss if and when related items have been reclassified from other comprehensive income to profit or loss.

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

The deferred income tax liability has been calculated and recognised in the balance sheet. The calculation is based on the difference between balance sheet items as presented in the tax return on the one hand, and in the financial statements on the other. This difference is due to the fact that tax assessments are based on premises that differ from those governing the financial statements.

Valitor Holding hf., Valitor hf. and Vildarkerfi ehf. applied for joint taxation in 2013, cf. Article 55 of the Income Tax Act no. 90/2003. The Directorate of Internal Revenue approved the joint taxation of these entities as of the financial year 2012 adding VISA Ísland ehf., to the joint taxation as of the financial year 2016. The joint taxation is valid for at least 5 years as of the 2013 tax return and for 2016 for VISA Ísland ehf.

f) *Cash*

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of cash, demand bank deposits and loans to credit institutions that are due. Cash comprises balances with less than three months maturity from the date of acquisition. Cash is carried at amortised cost in the Consolidated Balance Sheet.

g) *Loans and receivables to credit institutions*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except for those the Group specifies and recognises at fair value. Loans and receivables include loans that the Group provides to its clients, loans that the Group participates in providing together with other credit institutions and purchased loans that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Accrued interests are included in the carrying amount of loans and receivables.

h) *Financial assets and liabilities*

(i) Recognition

The Group recognises initially loans and prepayments, bonds and borrowings at the date that they are originated. All other financial assets and liabilities, including assets and liabilities denominated at fair value in the statement of comprehensive income, are initially recognised at the date that the Group becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies, continued:

h) *Financial assets and liabilities, continued:*

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. All interests arising upon transfer of financial assets in the hands of the Group are recognised as separate assets and liabilities.

A financial liability is derecognised when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting financial assets and financial liabilities

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 to settle on a net basis.

(iv) 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.

(v) Determination of fair value

The determination of fair value of financial assets and financial liabilities quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques. A market is considered active if quoted prices are readily and regularly available from a stock exchange or other independent parties and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, applying discounted cash flow analysis or other pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

i) *Impairment of financial assets*

At each balance sheet date the Group assesses whether there is objective evidence that assets, other than financial assets carried at fair value, are impaired. If any such indication exists then the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generated unit exceeds its recoverable amount. Impairment loss is recognised in the statement of comprehensive income.

The Group tests both individual financial assets and asset groups for impairment. All individually significant financial assets are tested for impairment on an individual basis. All individually significant financial assets that have not incurred impairment loss are then tested overall in order to find out whether there has been impairment loss not previously detected. The remaining financial assets are assessed (at the carrying amount value) collectively in groups that share similar credit risk characteristics.

Objective evidence of impairment of financial assets, including shares, can be a default or neglect of a borrower, amendment of loans on terms that the Company would otherwise not take into consideration, indication that the borrower or issuer heads for bankruptcy, disappearance of an active market for securities or other visible information in relation to an asset group, such as unfavourable changes in the liquidity of a borrower or issuer in the relevant group or financial condition related to default in the group.

3. Significant accounting policies, continued:

i) Impairment of financial assets, continued.:

(i) Impairment of loans

There are two methods of calculating impairment losses, those calculated on individual loans and those assessed on specific loan portfolios basis.

Objective evidence of impairment includes observable data about the following loss events:

(i) significant financial difficulty of the borrower;
(ii) a breach of contract, such as a default on installments or on interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;
(iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- general national or local economic conditions connected with the assets in the group.

(ii) Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposure on a case-by-case basis. The Group assesses at each reporting date whether there is any objective evidence that a loan is impaired. This procedure is applied to all loans that are considered individually significant. In determining such impairment losses on individually assessed loans, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the likely payment to the Group upon liquidation or bankruptcy;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigates) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Impairment loss is calculated by comparing the current carrying value with the present value of the expected future cash flows, discounted at the original effective interest rate of the loan. In the case of a loan at variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of impaired loans is reduced through the use of an allowance account.

(iii) Collectively assessed loans

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the reporting date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

- future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets;
- historical loss experience in portfolios of similar risk characteristics, for example by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on a individual loan;
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Estimates of changes in future cash flows for groups of assets are consistent with changes in observable data from period to period, for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual losses.

3. Significant accounting policies, continued:

i) Impairment of financial assets, continued:

(iv) Loan write-offs

Loans are written off, either partially or in full, when there is no realistic prospect of recovery of these loans.

(v) Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised in the statement of comprehensive income, the previously recognised impairment loss is reversed in the statement of comprehensive income.

(vi) Calculation of recoverable amount

The recoverable amount of the Group's investments in financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate.

The recoverable amount of other assets 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. In the case of an asset that does not create a considerably independent cash flow the recoverable amount is determined for the cash generating unit to which the asset appertains.

j) Other financial assets

Other financial assets are financial assets measured at fair value through profit or loss and available-for-sale financial assets.

(i) Financial assets at fair value through profit and loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Financial instruments at fair value through profit or loss are measured at fair value in the 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.

Accounting for finance income and expense is discussed in note 3. c)

k) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are recognised at cost less accumulated depreciation and amortisation. Cost value includes direct cost incurred upon the purchase.

(ii) Recognition of subsequent cost

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of operating assets. The estimated useful lives are specified as follows:

Land	0%
Buildings and paintings	0-6%
Fixtures, equipment and vehicles	20-33%

Depreciation method, useful lives and scrap value are evaluated on each reporting date.

3. Significant accounting policies, continued:

l) Intangible assets

(i) Software

Software is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three to ten years.

(ii) Customer relationships

Customer relationships are intangible assets acquired in a business combinations and are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. Customer relationships with finite useful life are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is allocated on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. The estimate useful life of customer relationsships is five years.

(iii) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combinations.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

m) Leases

The Group classifies leases based on the extent of the transfer of risks and rewards incidental to ownership of leased assets. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership. Leases that are not classified as finance leases are classified as operating leases.

Lease payments under operating leases where the Group is the lessee are recognised as an expense on a straight-line basis over the lease term.

n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3. Significant accounting policies, continued:

o) *Financial guarantees*

Financial guarantees are contracts binding the Group to repay a certain amount to the holder of a guarantee due to a loss it incurs when the debtor is unable to meet with its obligations on the due date in accordance with the terms of a debt instrument.

Liabilities due to financial guarantees are initially stated at fair value and the fair value is recognised in the statement of comprehensive income over the estimated life of the contract. The contract is then recognised at the higher of the fair value, taking into account recognised fee income, or the present value of estimated payments when a payment due to a guarantee is considered to be likely. Financial guarantees are presented in the balance sheet among other liabilities.

p) *Settlement obligations*

Settlement obligations consist of card settlements due to merchants at year end less outstanding claims on card schemes (i.e. transactions processed at year end but not yet settled).

q) *Employee benefits*

(i) Defined contribution plan

The Group pays contributions, as a part of employees' salaries, into separate pension funds. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

r) *Equity*

Share capital is classified as equity. Direct cost due to issue of share capital is accounted for as a deduction from equity. Dividends on shares are recognised in equity in the period in which they are approved by the Group's Annual General Meeting.

s) *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss in incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see note 30); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interest and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

3. Significant accounting policies, continued:

s) Business combinations continued:

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstanced that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dated and its subsequent settlements is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dated with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

t) New standards and interpretations yet to be adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these Financial Statements. Relevant to the Group's reporting are:

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. The Valitor Group will apply IFRS 9 from 1 January 2018. The total estimated adjustment resulting from the adoption of IFRS 9 on the opening balance equity of the Group at 1 January 2018 is not expected to have significant impact on the Financial Statement for the Group.

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECL's.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exception allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

3. Significant accounting policies, continued:

New standards and interpretations yet to be adopted; continued:

IFRS 15 Revenue from Contracts with Customers

The standard was issued in 2014 and defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards. Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transfer anticipates entitlement to goods and services. The standard specifies a comprehensive set of disclosure requirements. The standard will be effective for periods beginning on 1 January 2018 with early adoption permitted. The Group has during the year been evaluating its impacts and does not expect IFRS 15 to have significant impact on the Financial Statement for the Group.

IFRS 16 Leases

The standard issued in January 2016 does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheet as lease liabilities, with the corresponding right-to-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise short-term leases and leases of low-value assets. The standard is effective for annual periods beginning 1 January 2019. The Group is currently assessing the impact of the new standard.

RISK MANAGEMENT

4. Financial risk management

a) *Overview of financial risks and risk management*

A key matter in daily management of the Group consists of mitigating the risks it is exposed to due to its main operations. Following are the risks that matters to the Group.

– Credit risk
– Liquidity risk
– Market risk

Risk management framework

Risk assessment, especially the determination of its exposure, together with actions directed at mitigating risk exposure by reasonable countermeasures in each field of credit card transactions as applicable, is one of the Group's main tasks. Many risk factors can have negative effect on the Group's operation. The Board of Directors' policy is to continually monitor and manage the main risk factors that can affect the Group's equity and return. For this purpose the Group maintains an active risk management within the Group and in addition, it is the role of the Group's internal audit to monitor the operation by ensuring that rules are complied with in accordance with the Board of Directors' resolution.

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 and find acceptable balance between minimising risk on one hand and maximising the Group's revenue on the other hand.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The CEO has responsibility of risk management towards the Board of Directors. The CEO establishes further rules thereon, defines risk benchmarks as required in accordance with provisions of those rules and monitors regulatory compliance.

The Company's Board of Directors

- Establishes risk policy on an annual basis and reviews on a regular basis reports on the Group's financial risks.
- Takes note of risk factors in the management and organisation of the Group.

CEO

- Reviews reports on the Group's risks.
- Is responsible for the Group meeting its long term capital need.
- Distributes responsibility on financial matters in accordance with finance and risk policy to standing committees and the financial department.

Risk and audit committee

- Elaborates the Group's risk management policy.
- Discusses the Group's major risk exposure.
- Makes decisions on various matters related to the Group's risk management.

Risk management

- Supervises and coordinates daily risk management tasks.
- Shares knowledge and risk awareness within the Group.

b) *Credit risk*

(i) Agreements including credit risk

The Group's main credit risk arises in relation to agreements with merchants selling service in advance, which the Group might have to refund if the merchant does not fulfil its obligation towards card holders. In this case, airlines and domestic travel agencies weigh the most. Also credit card loans and installment loans guaranteed by the Group fall hereunder, in addition to possible default of merchants, with which the Group has made payment service agreements.

4. Financial risk management, continued:

b) Credit risk, continued:

(i) Agreements including credit risk, continued:

The Group operates in accordance with applicable laws and regulations, relevant for its operations, as well as in accordance with guidelines of the international card conglomerates. Accordingly, the Group's risk committee reviews the credit worthiness of the banks and savings banks against which it holds claims due to customer withdrawals. Before a new bank or savings bank is accepted as a new customer it needs to pass a specific credit evaluation and if it scores less than B the company needs to provide additional guarantees. Credit risk in respect of banks and savings banks is reviewed on a regular basis. With the Icelandic Central Bank's rules established in 2011 aimed at increasing security in domestic funds, transfers have significantly decreased settlements risk between credit card issuers and merchants possibly arising upon defaults by credit card issuers. Banks, saving banks and other credit card issuers are now required to make daily deposits amounting to all their customer withdrawals from their credit cards.

(ii) Credit risk policy

For the past few years, the Group has placed emphasis on effective control on banks and savings banks due to cardholders' withdrawals, regular collecting and evaluation of information from merchants selling service in advance and finally, improved hedges in its own credit card loan system. In relation to foreign merchants, the Group requires guarantees or payout deferral.

(iii) Loan processing and authorisation

Banks and savings banks determine withdrawal limits on cards upon issue, which are registered with the Group and used in daily control on card usage. Furthermore, various banks and savings banks register credit limits on a specific customer, which are used as basis for customers using more than one card. The Group uses the same information in addition to other available information as criterion in the processing of credit card loans that are fully guaranteed by the Group.

(iv) Credit risk monitoring

Various rules regarding risk management and control on card usage in various business environment are recorded in the card issuance authorisation system in collaboration with banks and savings banks. Precise work procedures regarding negotiations and agreements with merchants and transaction monitoring apply to the Group's transaction collection. Work procedures are in place regarding information gathering on transactions of domestic merchants selling service in advance and an action plan, if necessary, to require the merchants in question to provide special guarantees or other resort in order to reduce risk. Foreign merchants are required to provide a reserve contribution or payouts deferral. The Group operates a special support division, risk management, which in collaboration with the income division monitors balances of single customers and under certain circumstances, takes a stance to new trade agreements.

c) Impairment on loans

An allowance for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due on a claim according to the original contractual terms or equivalent terms. An allowance for credit losses is reported as a reduction of the carrying value of loans on the balance sheet. Additions to the allowances and provisions for credit losses are made through impairment on loans. Allowances and provisions for credit losses are evaluated at a counterparty-specific level and collectively based on the following principles.

4. Financial risk management, continued:

c) Impairment on loans, continued:

(i) Impairment-specific

A claim is considered impaired when there is an objective evidence that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or equivalent terms. Credit risk is evaluated based upon the borrower's position, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realisable value of any collateral.

The estimated recoverable amount is the present value, using the loan's original effective interest rate. Impairment is measured as the difference between the carrying amount and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of prior period impaired claims is reported as interest income.

All impaired claims are reviewed and analysed at least every three months. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates will result in a change in the allowances for credit losses and be charged or credited through impairment on loans.

An allowance for impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim agreement.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established allowances for credit losses or directly to credit loss expense and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are recongised as reduction of loan impairment expense.

(ii) Impairment-collective

All loans for which no impairment is identified on a counterparty-specific level are grouped into economically homogeneous portfolios to collectively assess whether impairment exists within a portfolio. Allowances from collective assessment of impairment are recognised as impairement expense and result in an offset to the loan position. As the allowance cannot be allocated to individual loans, interest is accrued on all loans according to contractual terms.

d) Credit Risk

Book value of the Group's financial assets corresponds to its maximum exposure to credit risk. The Group's maximum credit risk exposure is specified as follows:

	2017	2016
Cash and cash equivalents	24,727,929	24,228,311
Restricted cash	6,957,565	748,934
Receivables from credit institutions	2,120,787	2,572,216
Loans	2,785,463	3,733,298
Other financial assets	2,843,565	1,545,850
Other assets	2,999,053	1,413,015
	42,434,362	34,241,623

4. Financial risk management, continued:

d) Credit risk, continued:

The Group's credit risk is specified as follows in terms of impairment:

	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment	Total
31 December 2017						
Cash	24,727,929	0	0	24,727,929	0	24,727,929
Restricted cash	6,957,565	0	0	6,957,565	0	6,957,565
Rec. from credit instit. .	2,120,787	0	0	2,120,787	0	2,120,787
Loans	3,003,790	0	0	3,003,790	(218,327)	2,785,463
Other financial assets .	2,843,565	0	0	2,843,565	0	2,843,565
Other assets	2,999,053	0	0	2,999,053	0	2,999,053
	42,652,689	0	0	42,652,689	(218,327)	42,434,362
31 December 2016						
Cash	24,228,311	0	0	24,228,311	0	24,228,311
Restricted cash	748,934	0	0	748,934	0	748,934
Rec. from credit instit. .	2,572,216	0	0	2,572,216	0	2,572,216
Loans	3,661,483	0	333,912	3,995,395	(262,097)	3,733,298
Other financial assets .	1,545,850	0	0	1,545,850	0	1,545,850
Other assets	1,413,015	0	0	1,413,015	0	1,413,015
	34,169,809	0	333,912	34,503,721	(262,097)	34,241,623

Impairment on loans is specified as follows:

	Specific	Collective	Total
Year 2017			
Balance at 1 January	221,600	40,498	262,097
Provision for losses during the year	168,251	(8,216)	160,035
Final write off	(203,805)	0	(203,805)
Balance at 31 December	186,045	32,282	218,327
Year 2016			
Balance at 1 January	190,949	31,683	222,631
Provision for losses during the year	56,672	8,815	65,487
Payment on loans previously written off	(2,653)	0	(2,653)
Final write off	(23,368)	0	(23,368)
Balance at 31 December	221,600	40,498	262,097

4. Financial risk management, continued:

f) Liquidity risk

Liquidity risk management

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. The Group places great emphasis on monitoring and managing liquidity risk on a daily basis, and endeavours to ensure it has sufficient resources to meet its obligations at all times.

Measurement of liquidity risk

A key factor in the Group´s management of liquidity risk is to ensure a balance between cash flow of financial assets and liabilities. A comparison of the book value of the Group's financial assets and liabilities and the contractual cash flow thereof is outlined in the table below.

		Contractual cash flows			
	Book value	0 - 3 months	3 - 12 months	1 - 5 years	Total
31 December 2017					
Financial assets:					
Cash	24,727,929	24,727,929	0	0	24,727,929
Restricted cash	6,957,565	6,957,565	0	0	6,957,565
Receivables from credit institutions	2,120,787	2,120,787	0	0	2,120,787
Other financial assets	2,843,565	0	0	2,754,720 *	2,754,720
Loans	2,785,463	692,301	1,229,911	863,251	2,785,463
Other assets	2,999,053	2,999,053	0	0	2,999,053
Total financial assets	42,434,362	37,497,636	1,229,911	3,617,971	42,345,518
Financial liabilities:					
Accounts payable	25,335,011	25,335,011	0	0	25,335,011
Payable to credit institutions	14,035	14,035	0	0	14,035
Other liabilities	1,968,851	1,544,350	0	424,501	1,968,851
Total financial liabilities	33,126,820	26,893,396	0	424,501	27,317,897

* no maturity

		Contractual cash flows			
	Book value	0 - 3 months	3 - 12 months	1 - 5 years	Total
31 December 2016					
Financial assets:					
Cash	24,228,311	24,228,311	0	0	24,228,311
Restricted cash	748,934	748,934	0	0	748,934
Receivables from credit institutions	2,572,216	2,572,216	0	0	2,572,216
Other financial assets	1,493,904	0	0	1,493,904 *	1,493,904
Loans	3,733,298	751,669	1,652,073	1,043,189	3,446,931
Other assets	1,413,015	1,413,015	0	0	1,413,015
Total financial assets	34,189,678	29,714,144	1,652,073	2,537,093	33,903,311
Financial liabilities:					
Accounts payable	22,006,068	22,006,068	0	0	22,006,068
Due to credit institutions	332,618	332,618	0	0	332,618
Other liabilities	1,254,913	1,278,795	0	365,028	1,643,823
Total financial liabilities	23,593,599	23,617,481	0	365,028	23,982,509

* no maturity

4. Financial risk management, continued:

g) Market risk

(i) Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in market interest rates. The Group is exposed to interest rate risk, primarily resulting from a mismatch in interest bearing assets and liabilities, their duration and interest rate fixing periods.

At year end all assets and liabilities bear variable interest. No assets or liabilities are indexed.

(ii) Currency risk

Currency risk is the risk that earnings or capital may be negatively affected by fluctuations in foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in currency composition of assets and liabilities. The Group aims to limit currency risk. Net exposure per currency is monitored relative to the total equity of Valitor Holding hf.

A breakdown of the Group's currency exposure as defined by IFRS 7 is as follows:

2017	**USD**	**GBP**	**EUR**	**DKK**	**Other currencies**	**Total**
Cash	1,078,318	6,809,046	3,372,686	1,126,214	2,398,182	14,784,446
Oth. financial assets ...	2,776,252	0	0	0	0	2,776,252
Other assets	529,068	752,323	721,311	19,530	53,355	2,075,587
Other liabilities	(1,201,870)	(4,829,078)	(3,174,150)	(911,722)	(1,432,413)	(11,549,233)
Borrowings	(2,690,041)	0	(538,229)	(2,580,652)	0	(5,808,922)
Derivatives	(887,570)	(2,044,210)	(687,775)	(503,880)	(450,454)	(4,573,889)
Net currency exposure	(395,843)	688,081	(306,157)	(2,850,511)	568,669	(2,295,760)

2016	**USD**	**GBP**	**EUR**	**DKK**	**Other currencies**	**Total**
Cash	650,662	5,102,902	2,680,996	942,013	1,054,429	10,431,002
Oth. financial assets ...	921,645	0	0	0	0	921,645
Other assets	323,522	387,305	113,239	6,777	25,619	856,462
Other liabilities	(333,262)	(2,543,290)	(1,842,541)	(298,450)	(511,479)	(5,529,022)
Derivatives	(898,901)	(1,477,288)	(302,996)	(811,301)	(368,251)	(3,858,737)
Net currency exposure	663,666	1,469,629	648,698	(160,961)	200,318	2,821,350

IFRS 7 does not allow for intangible assets to be presented as part of the currency exposure. The Group is exposed to both DKK and GBP due to its investments in subsidiaries outside of Iceland which are therefore not presented in the table above.

Sensitivity analysis

Based on net currency exposure at end of December a 10% movement in each currency in the table above would impact profit before tax by ISK 28 million (2016: ISK 282 million). This analysis is based on the assumption that other risk factors are being held constant. The analysis is performed on the same basis for 2016.

Total assets in foreign currencies according to the Group's financial statements amount to ISK 19,683 million (2016: ISK 12,209 million) and total liabilities amount to ISK 21,932 million (2016: ISK 9,388 million).

4. Financial risk management, continued:

g) Market risk, continued:

(iii) Share price risk

The Group owns shares in other companies that are subject to share price risk, which is the risk that fair value of the shares will fluctuate due to market price changes. The Group is exposed to share price risk as VISA Island ehf. holds shares in Visa Inc. See note 15 for further information.

h) Equity and equity management

It is the Group Board of Directors´ policy to maintain a strong equity position so as to support stability in future operations. No changes were made during the year with respect to the Group´s equity management. The Group is not subject to external rules regarding minimal equity position.

5. Guarantee risk

Creditcard acquiring gives rise to a contingent liability as Visa and MasterCard, in certain circumstances, make card acquirers jointly liable with merchants for provision of goods and services (up to the value of the transaction processed). This exposure arises where payment is taken in advance of the goods and services being delivered.

The exposure manifests itself in a claim from the cardholder via its card issuing bank to the card acquirer via a dispute management process known as 'Chargeback'.

Valitor measures this exposure via a proprietary methodology, Delayed Delivery Exposure (DDE), which measures the value of turnover processed and where the goods and services are estimated still to be delivered.

Note, the value of this exposure is based on models and expert opinion of Valitor's Risk department.

Other guarantee risk arises from Valitor's guarantee of Prepaid e-money via Valitor's partners.

Guarantee risk	2017	2016
The net Risk of Delayed Delivery Exposure	3,480,426	5,338,679
Issued Prepaid e-money	2,814,437	7,505,612

6. Use of estimates and judgements regarding accounting policies applied

a) Fair value estimates on shares

When determination of fair value of shares cannot be based on pulished price on an active market, management uses valuation models in determining fair value. Using valuation models require management to decide both what model to use as well as to determine the assumptions on which fair value is based. Using other models and assumption could have an impact on both fair value and fair value changes recognised in the consolidated financial statements. Further information regarding methods and assumptions applied by management in determining fair value is disclosed in notes 3. h(v) and 15.

6. Use of estimates and judgements regarding accounting policies applied continued:

b) Impairment on loans and receivables

The Group reviews its loans and receivables portfolio and assesses impairment on a regular basis. Before the Group decides to recognise an impairment loss, objective evidence of a measurable decrease in the expected future cash flows from a single loan or loan portfolio before the decrease becomes detectable with individual loans in the portfolio shall be evaluated. This evidence could be changes in the payment ability of a borrower or in the economic environment. Management uses evaluations based on historical experience of assets with similar risk characteristics and objective evidence of impairment when future cash flow is estimated. The methodology and assumptions used in the evaluation of both the amounts and the timing of future cash flow are reviewed on a regular basis in order to reduce the difference between estimated and actual loss. Expected losses due to specific debt restructuring has been taken into account.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

7. Personnel

The total number of employees is as follows:

	2017	2016
Average number of full time equivalent positions during the year	302	249
Full time equivalent positions at the end of the year	341	263

Salaries and salary related expenses are specified as follows:

	2017	2016
Salaries	2,779,813	2,350,179
Pension fund contribution	321,323	263,668
Other salary related expenses	543,599	200,912
Total salaries and related expenses	3,644,734	2,814,759
Thereof capitalisation of salaries, due to internally developed software	537,790	433,345

Remunerations of the Board of Directors are specified as follows:

	2017	2016
Guðmundur Þorbjörnsson, Chairman of the Board	6,300	6,000
Synnöve Trygg	7,600	7,200
Roger Keith Alexander	6,300	6,000
Jónína S. Lárusdóttir	3,150	3,000
Stefán Pétursson, from 16 September 2016	3,150	1,000
Anna Rún Ingvarsdóttir, Deputy Board Member	2,500	2,400
Þórbergur Guðjónsson, Deputy Board Member, from 1 September 2016	820	0
Halldór Bjarkar Lúðvígsson, to 16 September 2016	0	2,000
Hrönn Greipsdóttir, Deputy Board Member to 16 September 2016	0	500
	29,820	28,100
Viðar Þorkelsson, CEO	37,800	33,000
Six (2016: seven) executive directors of the Company's divisions who are members of the Company's Executive Committee	142,420	155,384

8. Other operating expenses

Other operating expenses are specified as follows:

	2017	2016
External services	781,668	516,263
IT equipment	688,746	630,078
Various office and employee related cost	307,710	292,390
Housing	270,019	256,458
Impairment of loans and receivables	190,920	76,037
Marketing expenses	151,131	191,342
Other	352,204	313,748
Total other operating expenses	2,742,397	2,276,315

9. Auditor's fee

Auditor's fee is specified as follows:

	2017	2016
Audit of the financial statements	25,575	25,410
Review of interim financial statements	6,191	5,348
Total	31,766	30,757

10. Financial income and expenses

Financial income and expenses are specified as follows:

	2017	2016
Financial income on receivables from credit institutions	317,093	519,396
Financial income on loans to customers	0	570,508
Financial income on other loans	32,364	91,729
Reclassification of finance income as part of total operating income	0	(968,110)
Total financial income	349,457	213,522
Financial expenses on financial liabilities with credit institutions	(228,356)	(93,110)
Financial expenses on other liabilities	(5,850)	(31,648)
Total financial expenses	(234,206)	(124,758)
Foreign exchange difference	68,151	(1,768,353)
Fair value changes of financial assets	2,130,450	438,412
Dividends	13,624	0
Gain on sale of financial assets (Visa Europe)	0	8,691,124
Total income (expenses) on financial assets and liabilities	2,212,225	7,361,183
Total financial income and (expenses)	2,327,475	7,449,947

11. Taxes

Income tax

Income tax recognised through profit or loss is specified as follows:

	2017	2016
Current tax	0	74,092
Deferred income taxes	(103,729)	(384,366)
Effects change in tax rate	8,867	0
Income tax expense	(94,862)	(310,274)

Effective tax rate is specified as follows:

	2017		2016	
Earnings before income tax		**844,927**		**7,040,492**
Income tax according to current tax rate	20.0%	168,985	20.0%	1,408,098
Non-taxable income	(46.1%)	(389,724)	(24.4%)	(1,718,372)
Non-deductible expenses	0.0%	12	0.0%	0
Tax incentives not recognised in the P/L	11.6%	98,417	0.0%	0
Effect of tax rates in foreign jurisdictions	1.0%	8,867	0.0%	0
Other	2.2%	18,581	0.0%	0
Effective income tax	(11.2%)	(94,862)	(4.4%)	(310,274)

Non-taxable income

Non-taxable income consist mainly of profit from investments in shares.

Non-deductible expenses

Non-deductible expenses represent tax losses in jurisdictions where the Group pays no income tax and have not been capitalised due to uncertainty of future use.

Specific tax

The subsidiary Valitor hf. has an obligation to pay a special tax on financial institutions according to current law. On the one hand there is 0.376% tax of total liabilities exceeding ISK 50 billion according to the tax return and on the other hand a special financial management tax amounting to 6% of income tax base exceeding ISK 1,000 million. Whereas the Company exceeds neither limit, neither of these taxes are applicable for 2016 or 2017.

NOTES TO THE BALANCE SHEET

12. Financial assets and liabilities

Classification and fair value of financial assets and liabilities

The Group's classification and fair value of financial assets and liabilities (not including accrued interests) is specified as follows.

	Financial assets and liabilities at fair value	Assets and liabilities at amortised cost	Total book value	Fair value
31 December 2017				
Cash	0	24,727,929	24,727,929	24,727,929
Restricted cash	0	6,957,565	6,957,565	6,957,565
Receivables from credit institutions	0	2,120,787	2,120,787	2,120,787
Loans	0	2,785,463	2,785,463	2,785,463
Financial assets	2,843,565	0	2,843,565	2,843,565
Other assets	0	2,999,053	2,999,053	2,999,053
	2,843,565	39,590,797	42,434,362	42,434,362
Settlement obligations	0	24,758,545	24,758,545	24,758,545
Due to credit institutions	0	505,231	505,231	505,231
Other short term liabilities	0	1,968,851	1,968,851	1,968,851
	0	27,232,628	27,232,628	27,232,628

	Financial assets and liabilities at fair value	Assets and liabilities at amortised cost	Total book value	Fair value
31 December 2016				
Cash	0	24,228,311	24,228,311	24,228,311
Restricted cash	0	748,934	748,934	748,934
Receivables from credit institutions	0	2,572,216	2,572,216	2,572,216
Loans	0	3,733,298	3,733,298	3,733,298
Other financial assets	1,493,904	0	1,493,904	1,493,904
Other assets	0	1,413,015	1,413,015	1,413,015
	1,493,904	32,695,773	34,189,678	34,189,678
Settlement obligations	0	22,006,068	22,006,068	22,006,068
Due to credit institutions	0	332,618	332,618	332,618
Other short term liabilities	0	1,254,913	1,254,913	1,254,913
	0	23,593,599	23,593,599	23,593,599

13. Cash and restricted cash

Cash is specified as follows:	2017	2016
Bank deposits	24,727,929	24,228,311

Restricted cash is specified as follows:	2017	2016
Money market deposits, pledged	6,211,944	0
Bank deposits	745,621	748,934
Total restricted cash	6,957,565	748,934

13. Cash and restricted cash, continued:

Money market deposits and holdings in money market funds with a total carrying amount of ISK 5,809 million have been plegded to secure borrowings of the Group (see note 20). At year end, borrowings were overcollateralised by appr. ISK 403 million (coverage ratio of 106.9%). In January 2018, the collateral was marked down by appr. ISK 268 million to reflect a coverage ratio of 102.3%, thereby freeing up cash in the amount of appr. ISK 268 million.

Each day, some of the card issuers in Iceland deposit an amount equal to the financial institutions' customers withdrawals from their credit cards, into Valitor hf.'s bank accounts, in the relevant commercial bank or savings bank. Part of those deposits are restricted until second day of each month. This reduces settlement risk and ensures security of payments from issuer of the card to Valitor hf.

14. Loans

Loans are specified as follows by loan type:	2017	2016
Credit card loans	3,003,790	3,995,395
Impairment account due to loans	(218,327)	(262,097)
Total loans	2,785,463	3,733,298

Impaired loans are specified as follows by age:	2017	2016
6 months overdue and older	215,973	227,145
4 - 6 months overdue	0	23,434
0 - 3 months overdue	2,355	11,518
	218,327	262,097

15. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Financial instruments at fair value through profit or loss are specified as follows:

Derivatives:	2017	2016
FX fwds and FX swaps (2016: and interest rate swaps) - assets	13,214	572,259
FX fwds and FX swaps - liabilities	(88,844)	0
Derivatives total	(75,630)	572,259
International shares:		
VISA Inc, USA (pref. shares, c-class)	2,776,252	921,645
Domestic shares:		
Total domestic shares	54,099	51,946
Total financial instruments at fair value through profit or loss	2,754,720	1,545,850

The Group applies a fair value determination hierarchy specified as follows:

- Level 1: Based on publicly available prices on active markets for identical assets and liabilities.
- Level 2: A valuation method not based on public prices in an active market (level 1) but information that is observable for the assets and liabilities, either directly (e.g. price) or indirectly (derived from prices).
- Level 3: A valuation method with significant unobservabe inputs, i.e. assumptions not based on market information.

15. Other financial assets, continued:

The following table specifies the levels to which financial assets and liabilities pertain in:

31.12.2017

	Level 1	Level 2	Level 3	Total
VISA Inc. series C convertable preferred shares	0	2,776,252	0	2,776,252
FX fwds and FX swaps	0	13,214	0	13,214
	0	2,789,465	0	2,789,465

31.12.2016

	Level 1	Level 2	Level 3	Total
VISA Inc. series C convertable preferred shares	0	921,645	0	921,645
FX fwds and FX swaps	0	572,259	0	572,259
	0	1,493,904	0	1,493,904

VISA Inc.

The VISA Inc. series C convertable preferred shares are measured at fair value at initial recognition, considering the uncertainty surrounding the factor at which the preference shares will be converted into common shares in Visa Inc. whereas the final conversion factor will be known upon the conversion, in 2028 at the latest. The main uncertainties about the number of shares in Visa Inc. relate to litigations of regulators against Visa Europe Ltd. However, Visa Inc. is allowed to convert the preference shares into shares in Visa Inc. when they consider that the said uncertainty has been eliminated.

The estimation of the fair value of the preference shares in Visa Inc. is based on management's assessment of the following factors: the conversion factor of the preferred shares into common shares in Visa Inc., the fair value of the shares in Visa Inc. at December-end 2017 and liquidity discount due to restrictions which apply to the sale of the preferred C shares. The deferred payment is recognised among receivables from credit institutions.

16. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Real estates and land	Equipment, furnishings and vehicles	Total
2017			
Accumulated cost at the beginning of the year	22,993	924,642	947,635
Acquisitions through business combinations	0	22,359	22,359
Additions during the year	0	364,491	364,491
Sold and disposed of during the year	0	(218,497)	(218,497)
Translation differences	0	4,835	4,835
Total value at year end	22,993	1,097,830	1,120,823
Accumulated depreciation	16,689	521,583	538,272
Acquisitions through business combinations	0	1,140	1,140
Depreciated during the year	1,193	250,474	251,667
Sold and disposed of during the year	0	(218,376)	(218,376)
Total depreciation	17,882	554,821	572,703
Book value at year end	5,111	543,010	548,121

16. Property, plant and equipment continued:

	Real estates and land	Equipment, furnishings and vehicles	Total
2016			
Accumulated cost at the beginning of the year	22,993	1,294,889	1,317,882
Reclassification	0	(15,004)	(15,004)
Additions during the year	0	209,992	209,992
Sold and disposed of during the year	0	(549,055)	(549,055)
Translation differences	0	(16,179)	(16,179)
Total value at year end	22,993	924,642	947,635
Accumulated depreciation	15,496	863,208	878,704
Depreciated during the year	1,193	205,088	206,281
Sold and disposed of during the year	0	(546,712)	(546,712)
Total depreciation	16,689	521,583	538,272
Book value at year end	6,304	403,059	409,363
Depreciation rate	0-6%	20-33%	

Official real estate value of real estates and land, insurance value of real estates and insurance value of equipment, furnishings and vehicles are specified as follows:

	2017	2016
Real estate value of real estates and land	47,300	37,490
Insurance value of real estates	57,300	53,050
Insurance value of equipment, furnishings and vehicles	620,775	635,278

Depreciation of fixed assets and amortisation of intangible assets are specified as follows:

	2017	2016
Depreciation of property, plant and equipment	251,667	206,281
Amortisation of intangible assets, see note 17	582,587	444,453
Total depreciation and amortisation	834,253	650,734

17. Intangible assets

2017

	Software	Brands	Customer relations	Goodwill	Total
Accumulated cost at the beginning of the year	3,416,880	107,368	92,957	1,707,161	5,324,365
Acquisitions through business combinations	107,139	0	404,990	1,386,777	1,898,906
Additions	829,024	0	0	0	829,024
Balance at year end	4,353,043	107,368	497,947	3,093,938	8,052,295
Accumulated amortisation	1,214,333	16,307	11,427	0	1,242,067
Amortisation during the year	528,305	7,081	47,201	0	582,587
Total amortisation	1,742,638	23,388	58,628	0	1,824,654
Exchange rate effects	48,429	4,126	23,386	138,008	213,949
Book value at year end	2,658,835	88,106	462,706	3,231,945	6,441,590
Amortisation rate					0-33%

17. Intangible assets continued:

Goodwill arising during the year is due to investments in two new subsidiaries, International Payment Services Limited and Chip & Pin Solutions Limited. Allocation of the goodwill to cash-generating units has not been finalised at the date of finalisation of these Consolidated Financial Statements. The acquisition price of the recently acquired entity was based on estimated future cash flow that was expected to be incurred after the acquisition. No material changes has been on assumption used at the acquisition and therefore there are the management judgement that there is no indication of impairment. Further information on the investments in the subsidiaries can be found in note 30.

An impairment test was performed on AltaPay's goodwill at year end. At the beginning of 2017, structure changes accured in the Group where reallocation of the previously held goodwill was made. For impairment purpose goodwill was reallocated to one cash-generating unit, Altapay. The recoverable amount of this cash-generating unit was determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the board of directors. The calculation considers the time value of money, discounting future payments using a discount rate determined by the risk free return rates of the currencies in which the cash flows are projected to occur in and a risk premium based on any factors of risk or uncertainty. The impairment test concluded that no indications of impairment existed.

Key findings of the impairment test:

	Altapay
Book value of goodwill	1,789,408
Other assets assigned to cash-generating unit	1,287,132
Carrying amount	3,076,540
Recoverable amount	4,362,963
Excess value	1,286,423
Discount factor	10.1%

2016

	Software	Brands	Customer relations	Goodwill	Total
Accumulated cost at the beginning of the year	2,774,190	122,721	0	2,288,344	5,185,255
Corrections/Reclassification	208,218	0	108,407	(151,608)	165,017
Additions	616,770	1,637	0	0	618,407
Balance at year end	3,599,178	124,358	108,407	2,136,736	5,968,679
Accumulated amortisation	633,852	8,453	0	0	642,305
Corrections/Reclassification	155,309	0	0	0	155,309
Amortised during the year	425,172	7,854	11,427	0	444,453
Total amortisation	1,214,333	16,307	11,427	0	1,242,067
Exchange rate effects	(182,298)	(16,990)	(15,450)	(429,575)	(644,313)
Book value at year end	2,202,547	91,060	81,530	1,707,161	4,082,299
Amortisation rate					0-33%

18. Other assets

Other assets are specified as follows:

	2017	2016
Account Receivables	2,965,960	1,385,201
Pre-payments and uncollected income	254,741	418,694
Other assets	118,363	93,910
Total other assets	3,339,063	1,897,806

19. Payable to credit institutions

Payable to credit institutions are specified as follows:

	2017	2016
Bank overdraft	14,035	332,618

20. Borrowings

Borrowings are specified as follows:

	2017	2016
Borrowings in USD	2,690,041	0
Borrowings in DKK	2,580,652	0
Borrowings in EUR	538,229	0
	5,808,922	0

The maturity of the borrowings are specified as follows:

Year 2018	5,808,922	0

Money market deposits and holdings in money market funds with a total carrying amount of ISK 5,809 million have been plegded to secure borrowings of the Group (see note 13). At year end, borrowings were overcollateralised by appr. ISK 403 million (coverage ratio of 106.9%).

	Balance 1.1.2017	Cash flow	Non-cash changes			Balance 31.12.2017
			Acquisition	FX. movement	Fair value changes	
Borrowing	0	5,660,043	0	148,880	0	5,808,922
Due to credit institutions	332,618	(332,618)	14,035	0	0	14,035
Total liabilities from financing activities	332,618	5,327,425	14,035	148,880	0	5,822,958

21. Income tax assets (liabilities)

Income tax assets (liabilities) are specified as follows:

	Assets	Liabilities	Net 2017	Assets	Liabilities	Net 2016
Prop., plant and equipm.	0	(3,665)	(3,665)	0	(2,108)	(2,108)
Intangible assets	0	(427,033)	(427,033)	15,647	(336,143)	(320,495)
Deferred FX diff.	55,981	0	55,981	241,025	0	241,025
Loans	12,837	0	12,837	13,703	0	13,703
Carry-forward tax losses	407,696	0	407,696	185,487	0	185,487
	476,514	(430,699)	45,815	455,862	(338,251)	117,611

22. Other liabilities

Other liabilities are specified as follows:

	2017	2016
Prepaid income and accrued expenses	1,431,267	672,272
Commitment to purchase non-controlling interest	424,501	365,029
Other short term liabilities	458,733	606,522
Total other liabilities	2,314,501	1,643,823

We refer to note 30 for more information about the commitment to purchase non-controlling interest.

23. Equity

Share capital

Valitor Holding hf. share capital according to its Articles of Association amounts to ISK 400 million at year end and remains unchanged from the beginning of the year. One vote is attached to each ISK one share in the Company, in addition to the right of receiving dividend. The entire share capital has been paid.

Share premium (Statutory reserve)

Within Share premium is the statutory reserve amounting to ISK 100 million. It may be used to offset a loss if it cannot be equalised by transfer from other reserves. When the statutory reserve exceeds a quarter of the share capital the excess reserve may be used to increase share capital or to meet other needs.

Restricted equity

According to changes made to the Icelandic Financial Statement Act in 2016, effective from date 1 January 2016, companies must present in a separate equity account recognised share in profit of subsidiaries and associates in excess of dividend received or declared. This limitation ties the parent's share in subsidiaries profit and restricts the possibility of a dividend to shareholders of the parent company.

Other reserves

Other reserves items comprise translation difference due to financial statements of foreign subsidaries. These amounts are transferred to profit or loss at derecognition or impairment of underlying assets or if the subsidiaries are sold out of the Group.

Dividend

The Board of Directors proposes that net earnings will be added to equity and that no dividend be paid in 2018 for the fiscal year 2017.

24. Hedge Accounting

Starting from 1 January 2017 the Group applied net investment hedge accounting to foreign currency differences arising between the functional currency of its Danish subsidiary, Altapay A/S, and the Company's functional currency (ISK).

The Group's investment in Altapay A/S is hedged by a DKK-denominated bank borrowing of the Company with a carrying amount as at 31 December 2017 of DKK 154 million. The Group has designated 100% of the borrowing as a hedging instrument against the foreign currency risk arising from the corresponding amount of the total net investment in Altapay A/S.

The Group measures the effectiveness of the hedge based on the amount of the net assets hedged. To the extent that the hedge is effective, foreign currency differences arising on the translation of 100% of the bank borrowing designated as the hedging instrument are recognised in other comprehensive income and accumulated in the hedge reserve. The Group will reclassify these foreign currency differences from equity to profit or loss upon disposal of Altapay A/S. The Group recognises any ineffectiveness in profit or loss immediately. No ineffectiveness arose from this net investment hedge during the reporting period.

25. Off balance sheet information

Operating leases

The Group has entered into lease contracts on real estates used in the operation. The contract terms are up to 6 years and the Group has the priority purchase right to the assets or the right to extend the contracts at the end of the contract term.

Non-cancellable lease payments are payable as follows:	**2017**	**2016**
Within one year	228,845	114,259
1 to 5 years	719,978	405,158
After 5 years	123,538	160,577
Total	1,072,361	679,995

26. Related parties

The Group's related parties are owners with significant influence, associated companies, Board members, Managing Directors, and close family members of the aforementioned parties.

Owners and associated companies have carried out transactions with the Group during the year. Terms and condition of the transactions are on an arm's length basis.

The following tables discloses main transactions with related parties during the year, in addition to information of the Group's receivable and payable to these parties at year end.

2017

Outstanding with related parties is specified as follows:

	Assets	**Liabilities**	**Net**
Controlling parties	6,362,662	4,900,695	1,461,967
Key management personnel	160	0	160
	6,362,822	4,900,695	1,462,127

Transactions with related parties:

	Interest income	**Interest expenses**	**Fee and comm. income**	**Fee and comm. expenses**	**Other income/ expenses**
Controlling parties	248,900	(101,441)	547,821	(1,058,454)	(259,345)
Key management personnel	4	0	11	0	0
	248,905	(101,441)	547,833	(1,058,454)	(259,345)

2016

Outstanding with related parties is specified as follows:

	Assets	**Liabilities**	**Net**
Controlling parties	1,804,540	1,072,270	732,270
Key management personnel	0	813	(813)
	1,804,540	1,073,083	731,458

Transactions with related parties:

	Interest income	**Interest expenses**	**Fee and comm. income**	**Fee and comm. expenses**	**Other income/ expenses**
Controlling parties	95,010	(9,056)	529,138	(906,681)	(214,567)
Key management personnel	0	0	99	0	(68)
	95,010	(9,056)	529,236	(906,681)	(214,635)

27. Guarantee due to issuers

The financial position of Visa card issuers is evaluated on a yearly basis according to rules set by Visa EU. According to these rules, issuers in Iceland that get membership of Visa EU, through a principal membership that the Group's subsidiary Valitor hf. handles, shall under certain circumstances provide guarantee to Visa EU due to the issuance.

28. Legal Matters

Valitor Group has adopted a policy and implemented procedures in order to manage legal matters of dispute. When professional advice has been sought and the amount of potential loss has been realistically estimated, the Group takes appropriate actions in order to reflect the possible negative effect on the Group's financial position. In cases where it is deemed to harm Valitor Holding hf.'s defence to divulge potential sums in relation to law suits, it is omitted. At end of December there remained a few unresolved disputes involving the Group.

Contingent liabilities

In January 2015, Datacell ehf. and Sunshine Press Productions ehf. jointly filed suit against Valitor hf. for compensatory damages amounting to approximately ISK 8.1 billion relating to Valitor hf.'s cessation of Datacell's vendor agreement. The Supreme Court ruled on 24 April 2013 in case no. 612/2012 that Valitor hf. did not have a premise to rescind the agreement. The plaintiffs had court appointed appraisers evaluate their alleged losses. The appraisers returned their report in March 2016. Valitor disagreed with the assessment stated in the report and filed a motion for appointing three court appraisers to re-evaluate plaintiffs' alleged losses. On 14 March 2018 oral arguments will be delivered on whether to accept Valitor´s request for the appointment of new court appointed appraisers, to answer several questions on the Plaintiffs´ alleged losses, and more.

Kortaþjónustan hf. filed a suit against Valitor hf., Arion banki, Íslandsbanki hf., Landsbankinn hf. and Borgun hf., again in October 2017 and now demands compensation for alleged losses in relation to collution on IRF. Valitor and other defendants have filed a motion to dismiss the case, which is expected to be decided in Q1 2018 by the District Court.

Other legal matters

On August 2, 2016, the Bankers' Pension Fund filed a motion in the District Court of Reykjavik for selection of a court-appointed appraiser where the judgment recipients were Landsbankinn hf., The Central Bank, Valitor hf., RB Data Centre hf., the Government of Iceland, The Confederation of Icelandic Bank and Finance Employees and Landsvaki hf. The Bankers' Pension Fund maintains that is has a potential claim against the judgment recipients based on a settlement guaranteeing accrued obligations of the pension fund when changes were made to the specific amendments to the Pension Fund Regulations which came into force in 1998. The district Court of Reykjavik appointed an appraisor who has delivered a report to the Fund; who on 1 December 2017 shared the report with Valitor.

29. Other matters

The Group's board has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to do so in the foreseeable future. Therefore, the Financial Statements continue to be prepared on a going concern basis.

The Group will continue to invest in and pursue a growth strategy and penetrate international markets. By doing so the Group forfeits short-term profitability for long-term value creation. The year 2017 was challenging and the Group has been incurring operating losses for the past two years. In the short term, the operation will continue to be challenging as the Group continues to invest in new solutions that will generate income in the future. The five year plan for the Group assumes positive cash flow in few years and the board expects the Group to become profitable during the forecast period. The financial position of the Group is strong and at year end the equity ratio is 32.5%. The Group´s board has assessed its liquidity and is of the opinion that the Group has available cash or liquid assets to meet negative cash flow in the near future.

30. Business combination

(i) Subsidiaries acquired

	Principal activity	Date of acquisition	Proportion of voting equity interest acquired	Consideration transferred
2017				
International Payment Services Limited (IPS Ltd.)	Payment solutions provider	30.4.2017	67%	323,316
Chip & Pin Solutions Limited (C&P Ltd.)	Payment terminal provider	30.6.2017	100%	1,622,602
				1,945,917

On 30 April 2017, Iteron Holding Limited, subsidiary of Valitor Holding acquired 50% of the shares in International Payment Services Limited (IPS). Iteron also issued new shares in the company resulting in control of over 67% of IPS with 95% voting interests and option to buy the remaining shares in next 5 years time. The minority shareholder is granted a put option to sell her shares. Valitor has therefore accounted for the acquisition as 100% purchase of the equity.

IPS is a UK based leading secure payment solutions provider. The acquisition will see the consolidation of IPS's powerful technology into Valitor's own e-commerce solution, allowing Valitor to offer a true omni channel solution to pan European merchants.

On 30 June 2017, Iteron Holding Limited, subsidiary of Valitor Holding acquired 100% of the shares in Chip & Pin Solutions Limited (C&P).

Founded in 2004, Chip & PIN Solutions is one of the UK's most innovative card based payment provider, recognised for its high standards of service. The acquisition of Chip & PIN Solutions is another highly strategic move for Valitor, demonstrating our commitment to become a major payments services provider for UK businesses.

At the date of finalisation of these consolidated financial statements, the necessary valuations allocations and other calculations had not been finalised. Preliminary purchase price allocation has been accounted for in acquisition of both IPS and C&P and will be finalised within 12 months period from the acquisition date.

(ii) Consideration transferred

	IPS Ltd.	C&P Ltd.
Cash payment and share capital increase	275,500	1,544,025
Adjustments to the purchase price	47,816	78,576
Total	323,316	1,622,602

(iii) Valitor has expensed in total ISK 30 million within other operational expenses because of the two aquisitions during the year. This is due to due diligence and legal advice.

30. Business combination continued:

(iv) Identifiable assets acquired and liabilities recognised at the date of acquisition

	IPS Ltd.	C&P Ltd.	Total
Current assets	121,026	757,589	878,614
Non-current assets	109,840	18,477	128,317
Trade and other payables	(297,768)	(150,023)	(447,791)
Total	(66,903)	626,043	559,141

Valitor has used the income approach to estimate the present value of future cash flows attributable to the assets aquired.

(v) Goodwill arising on acquisition

	IPS Ltd.	C&P Ltd.	Total
Consideration transferred	323,316	1,622,602	1,945,917
Less: fair value of identifiable net assets acquired	66,903	(626,043)	(559,141)
Goodwill arising on acquisition	390,218	996,558	1,386,777