

Tryggingamiðstöðin hf.
Consolidated Financial Statements
for the year 2009
ISK

Tryggingamiðstöðin hf.
Síðumúla 24
108 Reykjavík
Iceland

Reg no. 660269-2079

Contents

Report and Statement of the Board of Directors and the CEO	3	Consolidated Balance Sheet	7
Independent Auditors' Report	4	Consolidated Statement of Changes in Equity	8
Consolidated Income Statement	5	Consolidated Statement of Cash Flows	9
Statement of Comprehensive Income	6	Notes	10

Report and Statement of the Board of Directors and the CEO

Operations in 2009

The consolidated financial statements of Tryggingamiðstöðin hf. for the year 2009 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements comprise Tryggingamiðstöðin hf. (Parent) and its subsidiaries (together referred to as the “Group”).

According to the income statement, after tax profit for the year amounted to ISK 2,928 million. The Company’s equity at the end of 2009 amounted to ISK 8,039 million. The Company’s equity ratio was 28% at year-end and the solvency ratio was 3.86. As of December 31, 2009, the Company’s total assets amounted to ISK 28,477 million.

According to the consolidated balance sheet, the share capital at year end amounted to ISK 1,082 million, of which 99.9% is held by Stoðir hf.

The Board of Directors recommends that no dividend shall be paid to shareholders for the year 2009.

Statement by the Board of Directors and the CEO

According to the best of our knowledge, the consolidated financial statements of Tryggingamiðstöðin hf. for the year 2009 give a true and fair view of the assets, liabilities, financial position and financial performance of the Company. Further, in our opinion the consolidated financial statements and the statement of the Board of Directors and the Chief Executive Officer gives a fair view of the development and performance of the Company’s operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of Tryggingamiðstöðin hf. for the year 2009 and confirm them by means of their signatures.

Reykjavik, 4 March 2010.

Board of Directors:

Jón Sigurðsson
Eva B. Helgadóttir

CEO:

Sigurður Viðarsson

Independent Auditors' Report

To the Board of Directors and Shareholders of Tryggingamiðstöðin hf.

We have audited the accompanying consolidated financial statements of Tryggingamiðstöðin hf. and its subsidiaries (the "Group"), which comprise the report by the Board of Directors, the balance sheet as at December 31, 2009, and the consolidated income statement, comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as at December 31, 2009, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavik, 4 March 2010.

KPMG hf.

Helgi F. Arnarson

Jón S. Helgason

Consolidated Income Statement for the year 2009

	Notes	2009	2008
Premiums earned		10.418.515	10.077.048
Outward reinsurance premiums		(987.083)	(1.096.799)
Earned premiums, net of reinsurance	6	9.431.432	8.980.249
Interest income and foreign exchange difference	7	2.167.024	2.878.161
Net income on investments at fair value		1.128.064	(4.586.589)
Profit from associated companies		0	13.959
Other investments income	8	63.960	64.378
Investment income		3.359.048	(1.630.091)
Other income	9	6.436	759.655
Other income		6.436	759.655
Total income		12.796.916	8.109.813
Claims incurred		(9.186.476)	(9.632.973)
Claims incurred, reinsurers' share		327.656	260.139
Claims incurred, net of reinsurance	10	(8.858.820)	(9.372.834)
Operating expenses	11	(2.191.640)	(2.320.492)
Interest expenses	14	(618.626)	(992.617)
Impairment	15	(820.386)	(662.443)
Net expenses		(12.489.472)	(13.348.386)
Profit (loss) before income tax		307.444	(5.238.573)
Income tax	16	(70.223)	(290.624)
Profit (loss) from continuing operations		237.221	(5.529.197)
Profit (loss) from discontinued operations	4	2.690.711	(12.078.755)
Profit (loss) for the year		2.927.932	(17.607.952)
Attributable to:			
Equity holders of the parent		2.917.401	(17.640.812)
Minority interest		10.531	32.860
Profit (loss) for the year		2.927.932	(17.607.952)

The notes on pages 10 to 37 are an integral part of these consolidated financial statements.

Statement of Comprehensive Income

	Notes	2009	2008
Profit (loss) for the year		2.927.932	(17.607.952)
Other comprehensive income:			
Currency translation differences		(5.502.636)	5.064.798
Total other comprehensive income		<u>(5.502.636)</u>	<u>5.064.798</u>
Total comprehensive income		<u>(2.574.704)</u>	<u>(12.543.154)</u>
Comprehensive income attributable to:			
Equity holders of the parent		(2.585.235)	(12.576.014)
Minority interest		10.531	32.860
Total loss for the year		<u>(2.574.704)</u>	<u>(12.543.154)</u>

The notes on pages 10 to 37 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet as at 31 December 2009

	Notes	2009	2008
Assets			
Operating assets	17	736.316	401.861
Goodwill	18	99.916	99.916
Assets classified as held for sale	19	1.070.262	44.634.013
Loans	20	5.966.306	7.017.831
Securities	21	12.870.321	9.687.181
Deferred tax assets	28	230.492	627.850
Reinsurance assets	22	308.755	303.775
Trade receivables	23	3.201.233	3.670.006
Cash and cash equivalents		3.993.088	3.422.892
Total assets		28.476.689	69.865.325
 Equity			
Share capital		1.081.639	1.081.639
Other reserves		6.827.135	6.827.135
Translation difference		0	5.502.636
Retained earnings (accumulated deficit)		128.641	(2.788.760)
Shareholders equity		8.037.415	10.622.650
Minority interest		1.320	181.873
Total equity	24,25	8.038.735	10.804.523
 Liabilities			
Subordinated loans	26	3.884.741	3.844.621
Technical provision	27	14.895.895	13.460.106
Liabilities classified as held for sale	19	851.923	40.746.920
Borrowings		0	155.080
Deferred tax liability	28	0	2.634
Trade and other payables	29	805.395	851.441
Total liabilities		20.437.954	59.060.802
Total Equity and liabilities		28.476.689	69.865.325

The notes on pages 10 to 37 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2009

	Share capital	Share premium	Translation difference	(Accumulated deficit) retained earnings	Minority interest	Total
Equity 1.1.2008	1.081.639	6.827.135	437.838	16.950.432	318.634	25.615.678
Total loss of the year			5.064.798	(17.640.812)	32.860	(12.543.154)
Minority, change					(169.621)	(169.621)
Dividend paid				(2.098.380)		(2.098.380)
Equity 31.12.2008	<u>1.081.639</u>	<u>6.827.135</u>	<u>5.502.636</u>	<u>(2.788.760)</u>	<u>181.873</u>	<u>10.804.523</u>
Equity 1.1.2009	1.081.639	6.827.135	5.502.636	(2.788.760)	181.873	10.804.523
Total loss of the year			(5.502.636)	2.917.401	10.531	(2.574.704)
Minority, change					(191.084)	(191.084)
Equity 31.12.2009	<u>1.081.639</u>	<u>6.827.135</u>	<u>0</u>	<u>128.641</u>	<u>1.320</u>	<u>8.038.735</u>

The notes on pages 10 to 37 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2009

	Notes	2009	2008
Operating activities:			
Net earnings (loss)		2.927.932	(17.607.952)
Adjustments to reconcile net (loss) earnings:			
Share in loss of associated companies		0	(13.959)
Interest income and expenses in income statement .....	(	1.067.250)	(1.400.259)
Depreciation and impairment of assets		100.425	50.459
Gain on sale of operating assets .....	(	2.981)	(729.836)
Loss on discontinued operations .....	(	3.022.924)	12.078.755
Changes in operating assets and liabilities:			
Securities, change .....	(	3.363.168)	3.115.369
Short term receivables, change		886.224	(915.294)
Loans, change		1.217.309	792.004
Deferred tax asset, change		394.722	273.395
Reinsurance assets, change .....	(	4.980)	(48.857)
Technical provision, change		1.435.789	1.035.793
Short term payables, change .....	(	131.712)	184.176
Other assets, change .....	(	19.148)	(103.680)
	(	649.762)	(3.289.886)
Interest income received		1.305.174	1.558.392
Interest expenses paid .....	(	235.029)	(209.793)
Net cash from (used in) operating activities		420.383	(1.941.287)
Investing activities:			
Investment in subsidiaries, net of cash acquired		785.103	(441.740)
Net change due to discontinued operations		0	(847.823)
Operating assets, change .....	(	431.899)	722.157
Net cash flow from (used in) investing activities		353.204	(567.406)
Financing activities:			
Dividend paid .....	(	395)	(2.098.380)
Borrowings, change .....	(	202.996)	(4.654.099)
Net cash flow used in financing activities	(	203.391)	(6.752.479)
Increase (decrease) in cash and cash equivalents		570.196	(9.261.172)
Cash and cash equivalents at the beginning of the year		3.422.892	12.684.064
Cash and cash equivalents at year-end		3.993.088	3.422.892
Investing and financing activities not affecting cash flows:			
Acquisition in properties		914.525	0
Mortgage loans .....	(	731.543)	0
Securities		182.982	0

The notes on pages 10 to 37 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Reporting Entity

Tryggingamiðstöðin hf.'s ("The Company") registered office is at Síðumúli 24 in Reykjavík, Iceland. Tryggingamiðstöðin hf. is a subsidiary of Stoðir hf. The consolidated financial statements of Tryggingamiðstöðin hf. as at and for the year ended 31 December 2009 comprise the company and its subsidiaries, together referred to as the "Group". Tryggingamiðstöðin's main operation is insurance and financial operations.

2. Basis of preparation

a. *Statement of compliance*

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

The financial statements were approved by the Board of Directors of Tryggingamiðstöðin hf. on 4 March 2010.

b. *Basis of measurement*

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

c. *Functional and presentation currency*

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

d. *Use of estimates and judgments*

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

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in note 3q.

e. *Changes in accounting method*

The Group has applied IAS 1 (Revised) Presentation of Financial Statements (2007). Comprehensive income consist of both revenue and expenses recognised in profit or loss as well as revenue and expenses recognised directly in equity. Comparative figures have been changed accordingly.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Groups entities.

Notes, contd.:

a. *Basis of consolidation*

(i) *Subsidiaries*

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

(ii) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. The consolidated financial statements include the Group's share in the profit or loss of associates on an equity accounted basis. The equity method is used from the date that significant influence commences until the date that significant influence ceases.

(iii) *Transactions eliminated on consolidation*

Intra-Group balances and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. *Foreign currency*

(i) *Foreign currency transactions*

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

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at the average exchange rate.

Foreign currency translation differences are recognised directly in equity in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation differences is transferred to profit or loss.

c. *Financial Instruments*

(i) *Financial assets and liabilities*

Financial assets and liabilities in the Group's balance sheet comprise securities, loans, receivables, cash, borrowings and other payables.

Financial assets and liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial assets and liabilities are measured as described below.

Notes, contd.:

c. *Financial Instruments, contd.:*

(i) *Financial assets and liabilities, contd.:*

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

(ii) *Cash and cash equivalents*

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

(iii) *Securities*

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

(iv) *Loans and accounts receivables*

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

Loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost. Receivables arising from insurance contracts are also classified in this category. The company's loans are capitalised with accrued interests, indexation and exchange rate differences at the end of the period. Indexed loans are recognised based on the indexes that came into effect at the beginning of January 2010 and currency indices loans are recognised based on the exchange rate of the relevant currency at the end of December 2009.

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

(v) *Amortised cost measurement*

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

(vi) *Offsetting*

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

Notes, contd.:

d. *Operating assets*

(i) *Measurement*

Buildings and other operating assets are stated at cost less accumulated depreciation and impairment losses.

(ii) *Subsequent costs*

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

(iii) *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of operating assets. The estimated useful lives are as follows:

Buildings	25-50 years
Other operating assets	3-10 years

The depreciation method, useful lives and residual values are reassessed at the reporting date.

e. *Intangible assets*

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

f. *Fair value measurement principles for financial instruments*

(i) *Securities*

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

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

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

Notes, contd.:

f. *Fair value measurement principles for financial instruments, contd.:*

(ii) *Loans and receivables*

The fair value of loans and receivables, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) *Non-derivative financial liabilities*

The fair value of non-derivative financial liabilities, which is determined for disclosure purpose is based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

g. *Insurance contracts*

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

(i) *Insurance contracts - definition*

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

Insurance risk is all risk, other than financial risk, that is moved from the policyholder to the insurer such as financial loss due to accident, death or damage.

(ii) *Insurance contracts - classification*

The Group's insurance contracts are categorised in two Groups according to how long the insurance risk lasts and whether the contracts are fixed or changeable.

Non-Life insurance

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

Liability and casualty insurance contracts protect the customers against the risk of causing harm to third parties as a result of their legitimate activities and compensates the policyholders own damage in accordance with the terms of the insurance contracts.

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

Life insurance

These contracts insure events associated with human life, for example death or survival over a long duration. Premiums are recognised as income in the period they are issued and claims paid are recognised as expense in the period that the insured event is claimed.

(iii) *Technical provisions*

The Group assesses, at the end of the fiscal year, whether the recorded insurance liability can carry out the Group's estimated obligations by assessing future cash flows of the insurance liability. All changes in the insurance liability are recognised in the income statement. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

Notes, contd.:

g. **Insurance contracts, contd.:**

(iv) **Reinsurance contracts**

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

Claims on reinsure's due to premiums and claims are recognised as reinsurance assets. The claims concern the reinsures share in damages according to reinsuree contracts and share in premium liability. Obligations due to reinsurance are the reinsure's share in premiums for reinsurance contracts which are recognised in the income statement at the time of the renewal of the reinsurance contracts.

h. **Share capital**

Ordinary shares

When share capital is repurchased, the amount paid, including directly attributable costs is deducted from equity.

Dividends

Dividends on shares are recognized in equity in the period in which they are approved by the Company's shareholders.

i. **Impairment of non-financial assets**

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j. **Impairment of financial assets**

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

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

Notes, contd.:

j. **Impairment of financial assets, contd.:**

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

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

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

k. **Income and expense from insurance operations**

(i) *Premiums*

Premiums recognised as income comprise the premiums contracted during the fiscal year including premiums transferred from last years but excluding next periods premiums, which are recognised as unearned premium. Premium reserve in the Balance Sheet forms the part of premiums due to insurance risk during the period which belongs to the next fiscal year.

(ii) *Claims*

Claims recognised in the income statement are the periods claims including increases or decreases due to claims from previous fiscal years. Claims reserved in the balance sheet are the total amount of reported but unpaid claims as well as actuarial provision for claims occurred but unreported.

l. **Income and expense from financial operations**

(i) *Net income from securities and derivatives*

Net income from investments in securities and derivatives comprise gain on sale of shares, changes in fair value of investments, changes in fair value of derivatives other than foreign exchange gain or loss and interest income or expense and dividend income. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(ii) *Interest income and expense*

Interest income and expense are recognised in the income statement using 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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- interest on investment securities on an effective interest basis.

Notes, contd.:

l. *Income and expense from financial operations, contd.:*

(iii) *Net foreign exchange (loss) gain*

Net foreign exchange (loss) gain comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies.

m. *Operating expenses*

Operating expenses consist of salary expenses, market cost, computer expenses, office- and administration expenses, the cost of running properties and other expenses.

n. *Income tax*

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

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

o. *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is business segment.

p. *New standards and interpretations not yet adopted*

The Company has adopted all IFRSs, interpretations and amendments to existing standards that are applicable for the year ended 31 December 2009 and relevant to the Company. The Company has not adopted early any IFRSs, interpretations or amendments effective after 31 December 2009. Changes in the standards and their interpretations are not considered to have material effects on the Group's financial statements.

Notes, contd.:

q. **Key sources of estimation uncertainty**

(i) *The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's most critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately pay for such claims.

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

As indicated in note 3c the Group's securities are measured at fair value on the balance sheet. For the majority of these financial instruments, quoted market prices are readily available. However, certain financial instruments, for example unquoted securities are fair valued using valuation techniques.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows etc.) and therefore, cannot be determined with precision.

(iii) *Determination of impairment of financial assets*

Financial assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3j. The assessment for impairment is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

4. Accounting policies related to discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business that is classified as held for sale. Classification as a discontinued operation occurs when the operation upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

Notes to the Consolidated Financial Statement, contd.:

5. Segment Reporting

Segment information is presented in respect of the Group's business. It is based on the Companies management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Operating profit of a segment, assets and liabilities, include items that belong to certain segments and also items that can be divided between segments in a logical way for the duration of more than one year.

Operating segment

The following segments are the Group's center operation.

* *Non-Life insurance*

* *Life insurance*

* *Financial operation*

Operating segment

	Non-Life insurance		Life insurance		Financial operation		Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Premiums	10.108.780	9.807.231	309.735	269.817	0	0	10.418.515	10.077.048
Outward reinsurance premiums	(904.768)	(1.021.173)	(82.315)	(75.626)	0	0	(987.083)	(1.096.799)
Investment income	1.668.688	2.587.409	28.301	16.520	1.662.058	(4.234.022)	3.359.048	(1.630.090)
Other income	0	0	0	0	6.436	759.655	6.436	759.655
Total income	10.872.700	11.373.467	255.721	210.711	1.668.494	(3.474.367)	12.796.916	8.109.814
Claims incurred	(9.093.281)	(9.545.241)	(93.195)	(87.732)	0	0	(9.186.476)	(9.632.972)
Claims incurred, reinsurers' share	292.186	226.949	35.470	33.190	0	0	327.656	260.140
Operating expenses	(1.841.069)	(1.932.098)	(86.744)	(113.594)	(263.827)	(274.802)	(2.191.640)	(2.320.494)
Interest expenses	0	0	0	0	(618.626)	(992.617)	(618.626)	(992.617)
Impairment	0	0	0	0	(820.386)	(662.443)	(820.386)	(662.443)
Operating profit of Segment	230.536	123.077	111.252	42.575	(34.345)	(5.404.229)	307.444	(5.238.573)
Income tax							(70.223)	(290.624)
Profit (loss) profit from continuing operations							237.221	(5.529.197)
Profit (loss) from discontinued operations							2.690.711	(12.078.755)
Profit (loss) for the year							2.927.932	(17.607.952)
Investment assets	14.490.473	13.093.475	156.270	134.347	13.521.191	56.333.728	28.167.934	69.561.550
Reinsurance assets	241.384	253.229	67.371	50.546	0	0	308.755	303.775
Total assets	14.731.857	13.346.704	223.641	184.893	13.521.191	56.333.728	28.476.689	69.865.325
Technical provision	14.672.354	13.275.213	223.641	184.893	0	0	14.895.995	13.460.106
Other liabilities	0	0	0	0	5.541.959	45.600.696	5.541.959	45.600.696
Total liabilities	14.672.354	13.275.213	223.641	184.893	5.541.959	45.600.696	20.437.954	59.060.802

Notes, contd.:**6. Earned premiums, net of reinsurance**

	2009	2008
Premiums written	10.603.428	10.325.611
Reinsure's share	(992.444)	(1.048.879)
Change in the gross provision for unearned premiums	(184.913)	(248.563)
Change in the provision for unearned premiums, reinsure's share	5.361	(47.920)
Earned premiums, net of reinsurance	<u>9.431.432</u>	<u>8.980.249</u>

7. Interest income and foreign exchange rate difference

Interest income from deposits	299.283	463.444
Interest income from bonds	1.057.229	1.892.912
Other interest income	301.035	231.216
Exchange rate difference	509.477	290.589
Interest income and exchange rate difference, total	<u>2.167.024</u>	<u>2.878.161</u>

8. Other investments income

Profit from sale of shares	0	2.088
Dividend on shares in companies	63.960	62.290
Other investment income, total	<u>63.960</u>	<u>64.378</u>

9. Other income and expense

Profit from sale of asset	0	729.836
Other income	6.436	29.819
Other income, total	<u>6.436</u>	<u>759.655</u>

10. Claims incurred, net of reinsurance

Claims paid	(7.983.922)	(8.953.443)
Claims paid, reinsure's share	316.223	181.253
Change in the provision for claims	(1.202.554)	(679.531)
Change in the provision for claims, reinsures' share	11.433	78.887
Claims incurred, net of reinsurance, total	<u>(8.858.820)</u>	<u>(9.372.834)</u>

11. Operating expenses

Salaries and related expenses	1.106.578	1.071.584
Administration expenses	764.817	1.088.151
Operating expenses	320.245	160.757
Operating expenses, total	<u>2.191.640</u>	<u>2.320.492</u>

Notes, contd.:

12. Salaries and related expenses	2009	2008
Salaries	937.448	906.863
Defined contribution expenses	93.308	104.631
Payroll tax	62.282	56.657
Other salary related expenses	13.540	3.433
Salaries and related expenses, total	<u>1.106.578</u>	<u>1.071.584</u>
 Average number of full time equivalent employees	 134	 133
 Salaries and benefits to the CEO, Board of Directors and Executives		
Sigurður Viðarsson, CEO	28.080	26.892
Jón Sigurðsson, Chairmen of the board	1.800	400
Eva Bryndís Helgadóttir, board member	1.200	0
Gunnar Karl Gunnarsson, former Chairman of the board	1.500	3.827
Árni Hauksson, former board member	600	1.500
Pétur Guðmundarson, former board member	600	1.500
Þorsteinn Már Baldvinsson, former board member	0	400
Executives (5)	87.928	99.205
 13. Auditor's fee		
Audit of the financial statements	16.564	9.622
Review of the interim financial statements and other service	10.051	17.836
	<u>26.615</u>	<u>27.458</u>
 14. Interest expenses		
Interest expense on borrowings	62.771	226.390
Interest expense on other borrowings	552.335	763.110
Other interest expenses	3.520	3.117
Interest expenses, total	<u>618.626</u>	<u>992.617</u>
 15. Impairment		
Impairment on securities and loans	734.253	564.283
Impairment on accounts receivable	86.133	98.160
Impairment, total	<u>820.386</u>	<u>662.443</u>
 16. Income tax expense		

At the end of the year, the Parliament increased the income tax rate from 15% to 18%. The new tax rate will be used in tax calculations for the year 2011 on earning for the year 2010. Deferred tax assets and tax liability at year end 2009 are calculated with 18% tax rate. Changes in income tax law regarding received dividend was also made, now received dividend is not deductible from profit except that carry loss forwards have been used. From the year 2011 profit from sale of shares and received dividend where the receiver owns less than 10% of total shares in the related company will be taxable.

Notes, contd.:**16. Income tax expense, contd.:**

	2009	2008
Income tax recognised in the income statement is specified as follows:		
Current tax payable	10.524	27.416
Original and reversal of temporary differences	59.699	263.208
Total income tax in income statement	<u>70.223</u>	<u>290.624</u>
Effective tax rate:		
	2009	2008
Profit (loss) before income tax	<u>307.444</u>	<u>(5.238.573)</u>
Income tax using the Company's domestic		
tax rate	15,0% 46.117	15,0% (785.786)
Effect of changes in tax laws	(13,8%) (42.571)	(20,5%) 1.075.366
Non tax deductible expenses	62,8% 193.217	(3,1%) 164.220
Tax exempt revenue	(0,3%) (854)	2,5% (132.669)
Other items	(40,9%) (125.686)	0,6% (30.507)
Effective tax rate	<u>22,8% 70.223</u>	<u>(5,5%) 290.624</u>

17. Operating assets

Operating assets are specified as follows:

	Property	Office equipment, Software, Vehicles	Total
Total value 1.1.2008.....	707.499	439.586	1.147.085
Addition during the year 2008.....	0	271.791	271.791
Assets transferred to assets classified as held for sale.....	0	(147.588)	(147.588)
Sold during the year 2008.....	(513.110)	(16.988)	(530.098)
Total value 31.12.2008.....	<u>194.389</u>	<u>546.801</u>	<u>741.190</u>
Previously depreciated.....	326.376	276.539	602.915
Depreciated during the year.....	12.014	38.445	50.459
Assets transferred to assets classified as held for sale.....	0	(73.161)	(73.161)
Sold during the year 2008.....	(238.572)	(2.310)	(240.882)
Total depreciation 31.12.2008.....	<u>99.818</u>	<u>239.513</u>	<u>339.331</u>
Book value 31.12.2008.....	<u>94.572</u>	<u>307.289</u>	<u>401.861</u>
Total value 1.1.2009.....	194.389	546.801	741.190
Addition during the year 2009.....	0	452.989	452.989
Sold during the year 2009.....	(22.873)	(8.901)	(31.774)
Total value 31.12.2009.....	<u>171.516</u>	<u>990.889</u>	<u>1.162.405</u>
Previously depreciated.....	99.818	239.513	339.331
Depreciated during the year.....	4.400	96.025	100.425
Sold during the year 2009.....	(6.807)	(6.859)	(13.666)
Total depreciation 31.12.2009.....	<u>97.411</u>	<u>328.679</u>	<u>426.090</u>
Book value 31.12.2009.....	<u>74.105</u>	<u>662.210</u>	<u>736.316</u>
Depreciation ratio.....	2 - 4 %	6 - 33%	

Notes, contd.:

18. Intangible assets

Goodwill

Book value 1.1.2008	4.769.193
Translation difference	2.440.032
Additions during the year	99.916
Impairment	(7.209.225)
Book value 31.12.2008	99.916
Book value 31.12.2009	99.916

The redeemable amount of shares in subsidiaries is based on the calculation of the utilization value. The calculations are based on future cash flow prospects, which are based on actual operating outcome and a five year business plan. Future cash flow estimates are extrapolated by using the average rate of growth within the sectors in which the companies operate. A weighted average of a yield claim in each company has been used in order to find the current value of future cash flow estimates.

19. Assets and liabilities held for sale

	2009	2008
<i>Assets</i>		
Real estate	1.034.738	94.000
Cars	35.524	9.680
Assets of subsidiary (Nemi Forsikring ASA)	0	44.530.333
	<u>1.070.262</u>	<u>44.634.013</u>
<i>Liabilities</i>		
Mortgages	851.923	75.134
Liabilities in the subsidiary (Nemi Forsikring ASA)	0	40.671.786
	<u>851.923</u>	<u>40.746.920</u>

20. Financial assets and financial liabilities

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

The following table shows which group financial assets and liabilities pertain and their fair value. Minor difference is between book value and fair value according to the interest rate, which is variable.

	Financial assets and liabilities at fair value	Loans and receivables	Other assets at amortised cost	Total book value	Fair value
31 December 2009					
Cash		3.993.088		3.993.088	3.993.088
Receivable from loan institutions		704.687		704.687	704.687
Loans		5.966.306		5.966.306	5.966.306
Financial assets at fair value	12.165.632			12.165.632	12.165.632
Other assets			1.078.719	1.078.719	1.078.719
Total financial assets	<u>12.165.632</u>	<u>10.664.081</u>	<u>1.078.719</u>	<u>23.908.432</u>	<u>23.908.432</u>
Borrowings		4.736.664		4.736.664	4.747.377
Other liabilities			10.524	10.524	10.524
Financial assets and liabilities	<u>12.165.632</u>	<u>5.927.417</u>	<u>1.068.195</u>	<u>19.161.244</u>	<u>19.150.531</u>

Notes, contd.:

20. Financial assets and financial liabilities, contd.:

a. Classification and fair value of financial assets and financial liabilities, contd.:

31 December 2008

Cash		3.422.892		3.422.892	3.422.892
Receivable from loan institutions		1.352.369		1.352.369	1.352.369
Loans		7.017.831		7.017.831	7.017.831
Financial assets at fair value	8.334.813			8.334.813	8.334.813
Other assets			103.680	103.680	103.680
Total financial assets	<u>8.334.813</u>	<u>11.793.092</u>	<u>103.680</u>	<u>20.231.585</u>	<u>20.231.585</u>
Borrowings		3.999.700		3.999.700	3.669.472
Other liabilities			27.417	27.417	27.417
Financial assets and liabilities	<u>8.334.813</u>	<u>7.793.392</u>	<u>76.263</u>	<u>16.204.468</u>	<u>16.534.696</u>

Interest rate used in calculation of fair value

Interest rate used to calculate expected cash flow of fair value calculations:

		2009	2008
Borrowings		4.6-6.7%	6.0-7.9%

b. Level of fair value

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

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2009				
Financial assets at fair value	<u>7.355.665</u>	<u>4.399.774</u>	<u>410.193</u>	<u>12.165.632</u>
31 December 2008				
Financial assets at fair value	<u>3.295.661</u>	<u>4.866.518</u>	<u>172.634</u>	<u>8.334.813</u>

Financial assets with fair value of ISK 892 million were moved from level 1 according to the assumption that there was no longer on active market for these assets. ISK 887 million was moved to level 2 and ISK 5 million to level 3. Assets denominated at the fair value of ISK 18 million were moved from level 2 to level 3 according to greater uncertainty in valuation.

c. Loans are specified as follows:

		2009	2008
Bonds with mortgage		6.466.905	6.597.382
Other loans		434.643	1.020.916
Loans, total		<u>6.901.548</u>	<u>7.618.298</u>
Provision for losses on loans			
Provision for losses on loans.....		(935.242)	(600.467)
Loans according to balance sheet.....		<u>5.966.306</u>	<u>7.017.831</u>

Notes, contd.:**20. Loans, contd.:****d. Changes in provision for loans are specified as follows:**

	General provision	Specific provision	Total
Impairment on loans 1.1.2008	31.877	179.837	211.714
Depreciation for the year		(177.971)	(177.971)
Paid in of previously depreciated		2.441	2.441
Loan impairment	141.537	422.746	564.283
Impairment on loans 31.12.2008	173.414	427.053	600.467
Depreciation for the year		(404.066)	(404.066)
Paid in of previously depreciated		4.588	4.588
Loan impairment	(45.993)	780.246	734.253
Impairment on loans 31.12.2009	127.421	807.821	935.242

21. Securities

Securities are specified as follows:

	2009	2008
Government backed securities	4.848.807	3.347.391
Other bonds	818.170	388.498
Listed shares	904.081	1.000.244
Unlisted shares	3.740.458	2.642.202
Equity funds	162.465	102.096
Fixed income funds	2.055.307	634.919
Other	341.033	1.571.831
Securities, total.....	12.870.321	9.687.181

22. Reinsurance assets

Reinsurers' share in the technical provisions:

Premium reserve	80.899	75.466
Claims outstanding	168.252	156.819
Claims arising out of reinsurance operations.....	59.604	71.490
Total reinsurance assets	308.755	303.775

Notes, contd.:**23. Accounts receivables**

	2009	2008
Accounts receivable out of insurance operations	3.201.233	3.670.006
<i>Provision for losses on accounts receivables</i>		
Provision 1.1.....	176.553	150.899
Impairment during the year.....	86.134	191.876
Actual losses during the year.....	(83.115)	(59.955)
Transferred to assets held for sale.....	0	(106.267)
Total.....	179.572	176.553

24. Capital stock and reserve funds

The Company's total share capital according to its Articles of Association amounted to ISK 1,090 million at year-end 2009. Each share of 1 krona carries one vote. The company's treasury shares amount to ISK 8 million.

Reserve funds are specified as follows:

Statutory reserve (a part of share premium account).....	270.710
Share premium.....	6.556.425
Reserve, total.....	6.827.135

25. Solvency

According to the Act on Insurance Activities No. 60/1994 implementing European Solvency Rules, the minimum solvency for the parent company at the year-end was ISK 2,054 million (2008: 1,808 million) and calculated solvency ISK 7,939 million (2008: 8,045 million).

The difference between calculated solvency and equity is specified as follows:

	2009	2008
Equity of parent company according to balance sheet.....	8.038.735	10.804.523
Goodwill and impairment.....	(99.916)	(2.759.223)
Calculated solvency of the parent company.....	7.938.819	8.045.300
Calculated solvency of the Group.....	7.938.819	8.045.300

Adjusted solvency of the Group is ISK 7,939 million (2008: 8,045 million) and the minimum adjusted solvency is ISK 2,626 million (2008: 3,483 million).

Solvency ratio of the parent company.....	3,86	4,45
Ratio of adjusted solvency for the Group.....	3,02	1,79

26. Subordinated loan

	Effective rate of interest	2009	2008
Subordinated loan, indexed, maturity 2016.....	5,8%	3.884.741	3.844.621

Notes, contd.:

27. Technical provisions

	2009	2008
Technical provisions (total):		
Claims outstanding	12.125.468	10.873.188
Provision for unearned premiums	2.770.427	2.586.918
Technical provision, total.....	<u>14.895.895</u>	<u>13.460.106</u>
Reinsure's share:		
Claims outstanding	168.252	156.819
Provision for unearned premiums	80.899	75.466
Reinsure's share, total.....	<u>249.151</u>	<u>232.285</u>
Own technical provision (net)		
Claims outstanding	11.957.216	10.716.369
Provision for unearned premiums	2.689.528	2.511.452
Own technical provision (net), total.....	<u>14.646.744</u>	<u>13.227.821</u>

Estimated reported claims, loss adjustment expenses and claims incurred but not reported are reported as claims outstanding less estimated salvage value of the assets that were damaged. The total salvage value amount at year-end 2009 and 2008 is immaterial.

Claims outstanding show the Group's financial commitment towards the policyholders for unpaid claims total, i.e. claims reported and incurred claims at year end but that are not reported.

Movements in technical provisions during the year:

	2009			2008		
	Total	Reinsure's share	Own share	Total	Reinsure's share	Own share
<i>Claims outstanding:</i>						
Notified claims	8.852.461	(139.383)	8.713.078	8.099.384	(61.932)	8.037.452
Incurred but not reported	2.020.727	(17.436)	2.003.291	1.962.555	(39.000)	1.923.555
Total at beginning of year	<u>10.873.188</u>	<u>(156.819)</u>	<u>10.716.369</u>	<u>10.061.939</u>	<u>(100.932)</u>	<u>9.961.007</u>
Claims paid during the year	(7.983.922)	316.223	(7.667.699)	(8.953.443)	181.253	(8.772.190)
Increase in liability - arising from current period	8.728.495	(170.286)	8.558.209	9.073.395	(190.770)	8.882.625
- arising from prior year	<u>507.707</u>	<u>(157.370)</u>	<u>350.337</u>	<u>691.298</u>	<u>(46.370)</u>	<u>644.928</u>
Total at the end of year	<u>12.125.468</u>	<u>(168.252)</u>	<u>11.957.215</u>	<u>10.873.189</u>	<u>(156.819)</u>	<u>10.716.370</u>
Notified claims	9.952.468	(146.828)	9.805.640	8.852.461	(139.383)	8.713.078
Incurred but not reported	<u>2.173.000</u>	<u>(21.425)</u>	<u>2.151.575</u>	<u>2.020.727</u>	<u>(17.436)</u>	<u>2.003.291</u>
Total at the end of year	<u>12.125.468</u>	<u>(168.253)</u>	<u>11.957.215</u>	<u>10.873.188</u>	<u>(156.819)</u>	<u>10.716.370</u>

Notes, contd.:

27. Technical provisions, contd.:

	2009			2008		
	Total	Reinsure's share	Own share	Total	Reinsure's share	Own share
<i>Provision for unearned premiums:</i>						
At beginning of year	2.586.918	(75.466)	2.511.452	2.338.355	(144.149)	2.194.206
Changes during the year	184.913	(5.361)	179.552	248.563	68.683	317.246
Translation difference	(1.404)	(72)	(1.476)	0	0	0
Total at the end of year	2.770.427	(80.899)	2.689.528	2.586.918	(75.466)	2.511.452

Non-Life insurance

Risk related to non-life insurance, especially accident insurance, depends on many variables that complicate sensitivity analysis. The Group uses statistic methods based on assumptions during risk assessment in order to estimate the ultimate cost of claims.

Basic claims outstanding is an estimate on reported claims to the Company. The claims department prepares an estimate for each claim based on the information on the damage occurrence at hand. If this information is not available an average claim value in the respective sectors is used but then later revalued with regards to the information received. If no appropriate information is available, the average claim in each insurance sector is used.

The amount for incurred but not reported claims is intended to cover both late reporting of events (IBNR) as well as additional costs for events whose consequences have not been fully reported (IBNER). Its valuation is primarily based on development pattern for payments and total claims in recent years (Chain ladder and related actuarial methods).

Provision for unearned premiums corresponds to the proportion of the duration of each policy issued that extends into the period after the end of 2009, adjusted for expected cancellations of policies.

Life insurance

The life insurance activity of the Group is limited to term life insurance and critical illness (CI) insurance. No long term savings products are offered.

Reinsurance

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

The enclosed appendix shows the development of the Group's claims for each of the last four years and claims outstanding for each year at the end of 2009. The small life insurance part does not give rise to separate detail information on the insurance provisions.

Notes, contd.:**28. Deferred tax (asset) liability**

The deferred tax asset is specified as follows:	2009	2008
Deferred income tax asset 1.1.....	(627.850)	(649.321)
Transferred to assets held for sale.....	0	(255.340)
Deferred income tax asset 1.1.....	(627.850)	(904.661)
Effect of change in tax ratio.....	(42.631)	150.777
Consolidated due to the acquisition of associated company.....	0	(11.835)
Income tax for the year.....	445.086	140.663
Income tax payable.....	(10.524)	(2.795)
Transferred to deferred tax asset.....	2.634	0
Other items.....	2.793	0
Deferred income tax asset 31.12.....	(230.492)	(627.850)

The deferred tax liability is specified as follows:

Deferred income tax liability 1.1.....	2.634	519.596
Transferred to assets held for sale.....	0	(149.371)
Deferred income tax asset 1.1.....	2.634	370.225
Effect of change in tax ratio.....	0	(774)
Income tax paid for the year 2008.....	0	(1.405)
Income tax recognised in income statement.....	0	13.362
Income tax payable.....	0	(14.597)
Income tax due to discontinued operations.....	0	(364.177)
Transferred from deferred tax liability.....	(2.634)	0
Deferred income tax liability 31.12.....	0	2.634

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

Property and equipment.....	42.446	19.965
Shares in other companies.....	305.884	134.885
Trade and other receivables.....	(198.573)	(90.070)
Other balance sheet items.....	61.113	(392)
Tax losses carried forward.....	(441.362)	(689.604)
Deferred income tax liability 31.12.....	(230.492)	(625.216)

29. Trade and other payables

Trade payables.....	471.463	486.294
Reinsurance liabilities.....	183.301	53.652
Unpaid taxes.....	10.524	27.417
Short term debt and accrued expenses.....	140.107	284.078
Total trade and other payables.....	805.395	851.441

Financial risk management

30. Overview

The Group has exposure to the following risks from its use of financial instruments:

- insurance risk
- credit risk
- liquidity risk
- market risk

Notes 31-35 present information and quantitative amounts about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

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

The frame for asset allocation is determined by the Group's management who sets the outline for the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored on intra-day bases by the Group's employees.

31. Insurance risk

The Group is exposed to a range of financial risks through its financial assets, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long term the Group's investment proceeds are not sufficient to fund the obligations arising from its insurance contracts.

Insurance contracts

For insurance contracts the Group funds the insurance liabilities with portfolio of securities and investment assets exposed to market risk.

During the current year the Group has increased the portion of financial assets invested in investment properties and cash and cash equivalents in the effort to balance the exposure to market and currency risk.

	2009	2008
Debt securities at fair value through profit or loss:		
Listed securities on the Icelandic Stock Exchange	5.423.667	2.223.666
Listed securities on foreign stock exchange	347.027	167.276
Unlisted securities	7.099.626	7.296.239
Loans and receivables	9.159.083	10.687.837
Cash	3.993.088	3.422.892
Total	<u>26.022.491</u>	<u>23.797.910</u>
Insurance contracts short term, net	<u>9.780.157</u>	<u>9.477.092</u>

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and not interest bearing contractually. The Group matches the cash flows of assets and liabilities in this portfolio by estimating their average duration.

Notes, contd.:

31. Insurance risk, contd.:

	2009	2008
Insurance liability - life risk (months)	6	6
Insurance liability - non-life (months)	13	13

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Group's management of short term insurance contracts as of 31 December 2009:

31 December 2009	Carrying amount	Non stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>4 yrs
Financial assets, linked to insurance contracts							
Debt securities at fair value through profit or loss:							
Listed securities on ISE	5.423.667	802.209	544.545	324.949	308.178	292.369	3.151.416
Listed securities on FSE	347.027	279.753	67.273				
Unlisted securities	7.099.626	6.300.872	184.559	57.748	53.259	503.187	
Loans and receivables	9.159.083		5.144.397	1.006.866	2.149.981	460.487	397.352
Cash	3.993.088		3.993.088				
Total	26.022.491	7.382.834	9.933.862	1.389.563	2.511.418	1.256.043	3.548.768

			Expected cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 4 yrs
Insurance contracts, net	14.646.744		9.780.157	2.666.459	1.363.123	442.417	394.588
Difference in cash flows	11.375.747	7.382.835	153.705	(1.276.896)	1.148.295	813.626	3.154.180

31 December 2008	Carrying amount	Non stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>4 yrs
Financial assets, linked to insurance contracts							
Debt securities at fair value through profit or loss:							
Listed securities on ISE	2.223.666	925.638	38.013	63.287	189	7.485	1.189.054
Listed securities on FSE	167.276	167.276					0
Unlisted securities	7.296.239	2.431.303	2.159.619	105.775	5.557	5.346	2.588.639
Loans and receivables	10.687.837		4.623.302	1.557.848	1.423.363	982.059	2.101.265
Cash	3.422.892		3.422.892				0
Total	23.797.910	3.524.217	10.243.826	1.726.910	1.429.109	994.890	5.878.958

			Expected cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 4 yrs
Insurance contracts, net	13.227.821		9.477.092	2.143.274	1.178.801	321.491	107.164
Difference in cash flows	10.570.089	3.524.217	766.734	(416.364)	250.308	673.399	5.771.794

Notes, contd.:

31. Insurance risk, contd.:

Sensitivity analysis - interest rate risk

Interest-bearing financial assets reprice in the short-term, no longer than twelve months. As a result, the Group is subject to limited exposure to fair value interest rates when it comes to assets. The carrying amounts of insurance contracts are not directly affected by changes in market risks. Any excess cash of the Group is invested in short-term commercial papers or reverse repurchase agreements with the term to maturity no longer than one month. At year end 2009, the Group owns securities for ISK 7,377 million which bear fixed interests. If shifting all yield curves up 1% for these securities it is estimated to have an impact of ISK 336 million on profit before tax. In securities, the Group owns securities to the amount of ISK 775 million, which have variable interests. The impact of 1% decrease in interests on annual cash flow is estimated to be ISK 8 million.

Sensitivity analysis - price risk

Sensitivity analysis for price risk illustrates how changes in the fair value of securities will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Group's financial assets are carried at fair value, all changes in market conditions will directly affect investment income.

Market fluctuations are monitored by the Group's management on intra-day basis which enables the Group to react quickly to any changes in the market.

At year end 2009, the price risk measured as a value change in underlying positions when the value of bonds decreases by 7%, the value of listed domestic equities decreases by 35% and the value of listed foreign equities decreases by 25% was estimated to be negative in the amount of ISK 978 million. If the same method was used on both listed and unlisted securities the value change in underlying position was estimated to be negative in the amount of ISK 2,363 million.

Sensitivity analysis - currency risk

The Group entities may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic kronas (ISK). At year end 2009 foreign nominated investments amounted to ISK 4,659 million. (2008: ISK 1,179 million).

32. Credit risks

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. The credit risk is related to loans and accounts receivables. The book value of these assets is equal to the maximum loss related to credit risk.

The Group is applying rules for every new loan agreement. The permission to provide a new loan agreement varies between parties, and if certain limits exceeded the Loan Committee shall be involved. With every new loan agreement the counterparty is evaluated. Rules regarding loan agreements involve limit of new loans in proportion to premiums and expected time of insurance contracts. All exceptions from these rules have to obtain special approval.

Credit risk is among other things distributed among a wide spread portfolio of securities, but at year end more than 50% of the loans are to individuals.

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

Notes, contd.:

32. Credit risks, contd.:

Loans specify as follows between individuals and companies:

	Loans to individuals		Loans to companies		Total	
	2009	2008	2009	2008	2009	2008
Impaired loan.....	471.232	461.646	673.519	337.352	1.144.751	798.998
Impairment on specific loans.....	(299.036)	(238.071)	(507.462)	(148.577)	(806.498)	(386.648)
	<u>172.196</u>	<u>223.575</u>	<u>166.057</u>	<u>188.775</u>	<u>338.253</u>	<u>412.350</u>
Loans in default						
without special impairment.....	736.794	1.256.390	708.131	854.984	1.444.925	2.111.374
Loans not in default.....	2.184.110	3.042.932	2.127.762	1.664.994	4.311.872	4.707.926
Impairment regarding general credit risk.....	(86.217)	(138.495)	(42.527)	(75.323)	(128.744)	(213.818)
	<u>2.834.687</u>	<u>4.160.827</u>	<u>2.793.366</u>	<u>2.444.655</u>	<u>5.628.053</u>	<u>6.605.482</u>
Loans according to balance sheet.....	<u>3.006.883</u>	<u>4.384.402</u>	<u>2.959.423</u>	<u>2.633.430</u>	<u>5.966.306</u>	<u>7.017.832</u>

Age of loans in default without special impairment:

	Up to 3 months	3-6 months	6-9 months	9-12 months	Total
2009					
Loans to individuals.....	602.339	85.988	28.366	20.101	736.794
Loans to companies.....	324.307	118.543	197.663	67.618	708.131
Total.....	<u>926.646</u>	<u>204.531</u>	<u>226.029</u>	<u>87.719</u>	<u>1.444.925</u>
2008					
Loans to individuals.....	771.841	408.087	40.065	36.396	1.256.389
Loans to companies.....	443.411	273.074	120.816	17.683	854.984
Total.....	<u>1.215.252</u>	<u>681.161</u>	<u>160.881</u>	<u>54.079</u>	<u>2.111.373</u>

33. Liquidity risk

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

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

The breakdown by contractual maturity of assets and liabilities:

31 December 2009	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets:						
Cash	3.993.088					3.993.088
Securities	2.271.124	317.180	838.462	2.735.523	1.494.220	7.656.509
Trade receivables		1.797.457	766.715	637.061		3.201.233
Loans		579.306	1.156.926	4.037.562	192.512	5.966.306
Reinsurance assets		240.276		68.479		308.755
Total financial assets	<u>6.264.212</u>	<u>2.934.219</u>	<u>2.762.103</u>	<u>7.478.625</u>	<u>1.686.732</u>	<u>21.125.891</u>

Notes, contd.:

33. Liquidity risk, contd.:

Liabilities:						
Trade and other payables	794.871	10.524				805.395
Technical provision	4.980.415	4.980.415	4.935.065			14.895.895
Subordinated loans		126.275	795.231	2.963.235		3.884.741
Borrowings	10.920	74.029	116.007	650.967		851.923
Total financial liabilities	0	5.786.206	5.191.243	5.846.303	3.614.202	20.437.954
Assets - liabilities	0	478.006	(2.257.024)	(3.084.200)	3.864.423	687.937

31 December 2008

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets:						
Cash	3.422.892					3.422.892
Securities	2.006.250		181.605	207.852	1.196.453	3.592.159
Trade receivables		1.872.504	802.502	995.000		3.670.006
Loans		605.918	1.342.379	4.569.590	499.944	7.017.832
Reinsurance assets			303.775			303.775
Assets for sale			44.530.333			44.530.333
Total financial assets	5.429.142	2.478.422	47.160.594	5.772.441	1.696.398	62.536.997
Liabilities:						
Trade and other payables		926.575				926.575
Technical provision		4.486.702	4.486.702	4.486.702		13.460.106
Liabilities classified as held for sale			40.671.786			40.671.786
Subordinated loans					3.844.621	3.844.621
Borrowings			155.080			155.080
Total financial liabilities	0	5.413.277	45.313.568	4.486.702	3.844.621	59.058.168
Assets - liabilities	5.429.142	(2.934.855)	1.847.026	1.285.739	(2.148.223)	3.478.829

34. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

35. Currency risk

The Group entities may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic krona (ISK).

Notes, contd.:**35. Currency risk, contd.:**

The breakdown of assets and liabilities by currency:

31 December 2009	USD	EUR	CHF	Other	Total
Assets:					
Cash	394.856	303.087		187.237	885.180
Securities	229.738	230.700		1.653.895	2.114.333
Trade receivables and other assets	146.911	184.124		717.623	1.048.658
Loans	113.710	235.869	284.993	165.752	800.324
Reinsurance assets	20.586			24.067	44.653
Total	905.801	953.780	284.993	2.748.574	4.893.148
Liabilities:					
Trade and other payables	8.515	16.914		45.867	71.296
Technical provision				162.521	162.521
Total	8.515	16.914	0	208.388	233.817
Net Balance Sheet position	897.286	936.866	284.993	2.540.186	4.659.331
31 December 2008					
Assets:					
Cash	128.775	80.048		91.168	299.991
Securities	169.200	271.831		321.034	762.065
Trade receivables and other assets	196.823	91.682		53.591	342.096
Loans	24.215	43.499	54.623	37.959	160.296
Total	519.013	487.060	54.623	503.752	1.564.448
Liabilities:					
Trade and other payables	1.153			42.421	43.574
Technical provision				342.292	342.292
Total	1.153	0	0	384.713	385.866
Net balance sheet position	517.860	487.060	54.623	119.039	1.178.582

Notes, contd.:

36. Capital management

The Board's policy is to maintain a strong capital base so as to sustain future development of the business.

The Act on Insurance Companies, no. 60/1994, addresses equity of insurance companies as solvency. Informations on the Group's solvency is presented in note 25.

37. Related parties

Definition of related parties

The Group has a related party relationship with its shareholders, subsidiaries, associates, board of directors of the parent company and Managing Director. Companies owned by board members are also considered as related parties.

Significant shareholders specify as follows:

	2009	2008
Stoðir hf.	99,9%	99,9%

Transactions with related parties and key employees

No unusual transactions took place with related parties in the year 2009. The Group's premium due to transactions with related parties in the year 2009 amounted to ISK 252 thousand (2008: ISK 12 million).

The salaries of the Board of Directors and managers are accounted for in note 12.

38. Group entities

	Location	Share 2009	Share 2008
Fjárvíar hf.	Iceland	100,0%	66,0%
Íslensk endurtrygging hf.	Iceland	99,7%	99,7%
Líftryggingamiðstöðin hf.	Iceland	100,0%	100,0%
Nemi Forsikring ASA	Norway	-	100,0%
TM fé ehf.	Iceland	100,0%	100,0%
Trygging hf.	Iceland	100,0%	100,0%

Financial Ratios

39. The Group's principal financial ratios:

	2009	2008
Claims ratio	93,9%	104,4%
Cost ratio	20,4%	22,8%
Combined ratio	114,4%	127,2%
Equity ratio	28,2%	15,5%
Equity ratio after disposal of Nemi Forsikring ASA	-	31,2%
Internal value of shares	7,43	9,99

Suppliment to note 27

Movements in technical provisions during the year:

As a supplement to future estimates the development of technical provision makes standards on the groups ability to decide the final claim amount. The upper part of the chart shows how the Group values its total claim amount for the last years. The lower part of the chart (own claims) the reinsurers' share has been deducted from the amounts stated in the upper chart.

Total amount

	2005	2006	2007	2008	2009	Total
Estimate of ultimate claims costs:						
-at year end	6.409	6.528	7.828	9.073	8.728	
-after one year	6.516	7.060	8.623	10.400		
-after two years	6.428	7.133	8.918			
-after three years	6.301	6.831				
-after four years	5.763	0				
Current estimate of cumulative claims	5.763	6.831	8.918	10.400	8.728	40.640
Cumulative payments to date	(5.399)	(6.100)	(7.309)	(7.027)	(3.367)	(29.202)
Claims outstanding	364	731	1.609	3.373	5.361	11.438
Claims outstanding in respect of prior years (2004 and earlier)						687
Total claims outstanding at the end of year 2008						12.125
Claims outstanding for life insurance (included above)						105

Claims, own share

Current estimate of cumulative claims	4.937	6.600	8.705	10.115	8.553	38.910
Cumulative payments to date	(4.584)	(5.880)	(7.113)	(6.760)	(3.271)	(27.608)
Claims outstanding	353	720	1.592	3.355	5.282	11.302
Claims outstanding in respect of prior years (2004 and earlier)						655
Total claims outstanding at the end of year 2009, own share						11.957