

Sjóvá-Almennar tryggingar hf.

Consolidated Financial Statements
for the year ended 31 December 2010
ISK

Sjóvá-Almennar tryggingar hf.
Kringlan 5
103 Reykjavík
Iceland

Reg. no. 650909-1270

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Endorsement and Statement by the Board of Directors and the CEO

Operation in the year 2010

The Consolidated Financial Statements of Sjóvá-Almennar tryggingar hf. for the year 2010 have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted by the EU. The Company's main operation is insurance and financial operation. The consolidated financial statements include the Company and its subsidiaries, Sjóvá-Almennar líftryggingar hf. and Sjóvá Forvarnahúsið ehf., together referred to as the "Group".

According to the consolidated statement of comprehensive income, profit for the year amounted to ISK 811 million. The Group's equity at the end of 2010 amounted to ISK 12,292 million. The Group's equity ratio was 33.6% at year end, the solvency ratio of the parent company was 2.41 and the adjusted solvency ratio was 1.83 and increased from 1.40 at year end 2009. As of 31 December 2010, the Group's total assets amounted to ISK 36,581 million.

The board of directors proposes that no dividend will be paid to shareholders in the year 2011.

Ownership

The shareholders of Sjóvá-Almennar tryggingar hf. at year end 2010 were Eignasafn Seðlabanka Íslands ehf. with a 73.03% share, SAT Eignarhaldsfélag hf. with a 17.67% share and Íslandsbanki hf. with a 9.30% share.

Statement by the board of directors and the CEO

To the best of our knowledge, the consolidated financial statements of Sjóvá-Almennar tryggingar hf. for the year ended 31 December 2010 give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. Further, in our opinion the consolidated financial statements and the statement of the Board of Directors and the CEO gives a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group. Further information regarding risk management is in notes 25-32 and note 35 to the financial statements.

The Board of Directors and the CEO have today discussed the consolidated financial statements of Sjóvá-Almennar tryggingar hf. for the year 2010 and confirm them by means of their signatures.

Reykjavík, 14 March 2011.

Board of Directors:

Haukur G. Ben.
Þórhildur Ó. Helgadóttir

Frodo Berg
Sigrún Jónsdóttir
Einar Jónsson

CEO:

Lárus Þórunn

Independent Auditor's Report

To the Board of Directors and Shareholders of Sjóvá-Almennar tryggingar hf.

We have audited the accompanying consolidated financial statements of Sjóvá-Almennar tryggingar hf. and its subsidiaries (the "Group"), which comprise the consolidated Statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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 consolidated financial position of Sjóvá-Almennar tryggingar hf. as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 106, Paragraph 1, Item 5 of the Icelandic Financial Statement Act No. 3/2006, we report, to the best of our knowledge, that the report of the Board of Directors which is part of the Financial Statements includes the information required by the Financial Statement Act.

Reykjavík, 14 March 2011.

KPMG ehf.



Margrjet Guðjónsdóttir
Þormundur Þaldimarsson

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Notes	2010 1.1. - 31.12.	2009 30.9. - 31.12.
Premiums earned		12.048.801	3.047.021
Outward reinsurance premiums		(1.153.617)	(317.702)
Earned premiums, net of reinsurance	6	<u>10.895.184</u>	<u>2.729.319</u>
Interest and similar income		357.878	60.102
Net income from securities at fair value		906.887	599.798
Investment income	7	<u>1.264.765</u>	<u>659.900</u>
Reinsurance commissions		100.148	36.814
Other income		9.727	1.599
Other income		<u>109.875</u>	<u>38.413</u>
Total income		<u>12.269.824</u>	<u>3.427.632</u>
Claims incurred		(8.578.354)	(2.276.245)
Claims incurred, reinsurers' share		755.911	45.974
Claims incurred, net of reinsurance	8	<u>(7.822.443)</u>	<u>(2.230.270)</u>
Operating expenses	9	(3.431.964)	(878.606)
Interest expenses		(8.764)	(1.896)
Impairment of goodwill		0	(6.579.000)
Net expenses		<u>(3.440.728)</u>	<u>(7.459.503)</u>
Profit (loss) before income tax		1.006.653	(6.262.141)
Income tax	11	(195.654)	1.152.338
Comprehensive income (loss) for the year		<u>810.999</u>	<u>(5.109.803)</u>
Profit attributable to:			
Shareholders of the Company		<u>810.999</u>	(5.109.803)
Basic and diluted earnings per share	20	<u>0,51</u>	(3,21)

The notes on pages 9 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2010

	Notes	2010	2009
Assets			
Operating assets	12	327.143	334.390
Goodwill and brand	13	1.867.578	1.867.578
Other intangible assets	14	5.546.577	5.924.849
Deferred tax asset	23	1.059.778	1.158.420
Securities	15-16	21.757.014	22.066.059
Reinsurance assets	17	1.178.475	683.689
Accounts receivables	18	2.235.404	2.416.868
Cash and cash equivalents		2.609.119	745.235
Total assets		<u>36.581.088</u>	<u>35.197.088</u>
Equity			
Share capital	19	1.592.522	1.592.522
Share premium	19	9.888.570	9.888.570
Retained earnings		810.999	0
Total equity		<u>12.292.091</u>	<u>11.481.092</u>
Liabilities			
Technical provision	22	20.558.811	19.601.888
Technical provision for life-assurance policies where the investment risk is borne by the policyholders		2.402.519	2.631.617
Deferred tax liability	23	29.196	24.899
Accounts payable and other liabilities	24	1.298.471	1.457.593
Total liabilities		<u>24.288.997</u>	<u>23.715.996</u>
Total equity and liabilities		<u>36.581.088</u>	<u>35.197.088</u>

The notes on pages 9 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Year 2010

		Share capital	Share premium	Accumulated deficit	Total equity
Changes in equity in 2009					
Issued share capital upon foundation	20	1.592.522	14.998.373	0	16.590.895
Comprehensive loss for the year				(5.109.803)	(5.109.803)
Share premium transferred to accumulated deficit			(5.109.803)	5.109.803	
Equity as at 31.12.2009		<u>1.592.522</u>	<u>9.888.570</u>	<u>0</u>	<u>11.481.092</u>
Changes in equity in 2010					
Equity as at 1.1. 2010	20	1.592.522	9.888.570	0	11.481.092
Comprehensive income for the year				810.999	810.999
Equity as at 31.12.2010		<u>1.592.522</u>	<u>9.888.570</u>	<u>810.999</u>	<u>12.292.092</u>

The notes on pages 9 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the Year ended 31 December 2010

	Notes	2010 1.1.-31.12.	2009 30.9.-31.12.
Operating activities:			
Profit (loss) for the year		810.999 (	5.109.803)
Adjustments for:			
Fair value of financial assets and liabilities, change	15-16 (	1.193.481) (	682.627)
Depreciation and amortisation	12-14	469.257	113.185
Impairment losses on goodwill		0	6.579.000
Income tax, change	23	100.928 (	1.182.122)
Own technical provision, change	22	462.138 (	929.632)
Changes in operating assets and liabilities:			
Accounts receivables, change		163.108	685.627
Accounts payable and other liabilities, change		(138.802)	192.401
Net cash from (used in) operating activities		674.147	(333.971)
Investing activities:			
Investment in securities, change	15-16	1.273.183 (	1.466.504)
Cash and cash equivalents included in the net assets acquired		0	2.617.482
Operating assets, sold	12-14	4.346	16.357
Acquisition of other intangible assets		(53.336) (	53.965)
Acquisition of operating assets		(34.456) (	34.164)
Net cash flow from investing activities		1.189.737	1.079.206
Increase in cash and cash equivalents		1.863.884	745.235
Cash and cash equivalents at the beginning of the year		745.235	0
Cash and cash equivalents at year-end		2.609.119	745.235
Investing and financing activities not affecting cash flows:			
Paid in share capital at foundation		0	16.590.895
Investment securities received as share capital		0 (	16.590.895)
Assets acquired from SJ Eignarhaldsfélag hf.		0 (	22.035.687)
Liabilities assumed from SJ Eignarhaldsfélag hf.		0	24.653.171
Other informaton:			
Interest income received		343.672	96.285
Interest expense paid		(2.588) (	1.896)
Income tax paid		(105.093)	0

The notes on pages 9 to 36 are an integral part of these consolidated financial statements.

Notes

1. Reporting Entity

Sjóvá-Almennar tryggingar hf.'s ("Sjóvá" or "the Company") registered office is at Kringlan 5 in Reykjavík, Iceland. The consolidated financial statements of Sjóvá as at and for the period ended 31 December 2010 comprise the company and its subsidiaries, together referred to as the "Group". Sjóvá's main operation is insurance and financial operation.

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 Company started its operation on 30 September 2009. The income statement covers the 12 months period from 1 January 2010 to 31 December 2010. The comparative income statement is for the period 30 September to 31 December 2009.

The financial statements were approved by the Board of Directors of Sjóvá-Almennar tryggingar hf. on 14 March 2011.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for that securities are measured at fair value.

c. Going concern

The management has assessed the Group's ability to continue as a going concern and is satisfied that it has the resources to continue its operations. Accordingly, these consolidated financial statements have been prepared on a going concern basis. Based on the results of the Group's solvency tests the Group is sufficiently capitalized to continue as a going concern.

d. Functional and presentation currency

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

e. Use of estimates and judgments

The preparation of the consolidated 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. 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 estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in note 3r.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in these consolidated financial statements, and have been applied consistently by Group entities.

Notes, contd.:

3. Significant accounting policies, contd.:

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, 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 where necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions 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 transactions

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

c. Financial assets and liabilities

(i) Recognition

Non-derivative financial assets and liabilities in the Group's financial position comprise securities, receivables, cash and cash equivalents and payables.

Non-derivative financial assets and liabilities are recognised initially at fair value plus, for assets and liabilities not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial assets and liabilities are measured as described below.

A financial asset and liability is recognised when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expires 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. Receivables are recognised on the date that they are originated. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(ii) Securities

Securities in the consolidated statement of financial position 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. These include assets held to match insurance contracts. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

(iii) Accounts receivables

Accounts receivables are financial assets, mainly arising from insurance contracts, which carry fixed or determinable payments and are not quoted in an active market.

Notes, contd.:

3. Significant accounting policies, contd.:

(iv) Cash and cash equivalents

Cash and cash equivalents comprise unrestricted balances held with financial institutions and highly liquid financial assets with original maturities of less than three months that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(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 financial position 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.

(vii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument, if available. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. The fair value of financial assets designated at fair value through profit or loss is determined as the relevant market's closing price where available. This will generally be the last trading price.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using 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, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group uses external valuation experts which estimate the fair value through the use of models and incorporation of observable market information and professional judgement. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Notes, contd.:

3. Significant accounting policies, contd.:

d. Operating assets

Items of equipment and property are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditures directly attributable to acquiring these assets.

Subsequent costs are 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 profit or loss as an expense as incurred.

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

Property	25-50 years
Fixtures, equipment and vehicles	3-10 years

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e. Intangible assets

(i) Goodwill and other intangible assets with indefinite useful life

Goodwill is recognised as asset only when acquired in a business combination. Those assets are recognised as of the acquisition date and measured as the aggregate of fair value of the consideration transferred, the recognised amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree, less the net recognised amount, generally fair value, of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Consideration transferred includes the fair value of the assets transferred, liabilities incurred, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration.

Following initial recognition, goodwill and brand are measured at cost less any accumulated impairment losses. They are reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill is allocated from the acquisition date to each of the Group's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

(ii) Computer software and customer relations

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring them into service. Computer software recognised as intangible asset is amortised over its useful life, determined to be 10 years in the line item Operating expenses.

Cost associated with maintaining computer software is recorded as Operating expenses, when incurred.

Computer software and customer relations identified at business acquisition are amortised over its useful life, determined to be 10 - 15 years.

3. Significant accounting policies, contd.:

e. Intangible assets contd.:

(iii) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, are reviewed for possible reversal of the impairment at each reporting date.

f. 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 significant insurance risk from policyholders by agreeing to compensate the policyholders if a specified uncertain future event would adversely affect the policyholder.

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 categorized in two groups according to how long the insurance risk lasts and whether the contracts are fixed or changeable.

Property and Casualty insurance

Insurance contracts that are categorized as in this section are liability insurance, 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 in business 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 on a straight-line basis over insured period and claims paid are recognised as expense in the period that the insured event occurs.

(iii) Investments with investment risk borne by the life assurance policyholders

Investments with the investment risk of life assurance policyholders are financial assets owned by the company that the policyholders have selected and carry the investment risk in accordance with the life assurance policy. Technical provision for life assurance policies where the investment risk is borne by the policyholders is the company's liability towards these policyholders in the same amount.

Notes, contd.:

3. Significant accounting policies, contd.:

f. Insurance contracts, contd.:

(iv) Technical provisions

The Group assesses, at the reporting date, 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 profit or loss (see note 9). 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.

(v) 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 reinsures due to premiums and claims are recognized as reinsurance assets. The claims concern the reinsures share in damages according to reinsured insurance contracts and share in premium liability. Obligations due to reinsurance are the reinsures share in premiums for reinsurance contracts which are recognised in profit or loss at the time of the renewal of the reinsurance contracts (see note 6 and 9).

g. Employee benefits

All Group entities have defined contribution plans, where the entities pay a fixed contribution to publicly or privately administered pension plans on a mandatory and contractual basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense when they become due. The Group has no defined benefit pension plan.

h. Share capital

(i) Ordinary shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs is recognized as a change in equity. Acquired own shares are classified as treasury shares and deducted from equity.

(ii) Dividends

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

i. 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.

j. 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 provision for unearned premiums. Provision for unearned premiums is a part of the technical provision in the statement of financial position and forms the part of premiums due to insurance risk during the period which belongs to the next financial year.

(ii) Claims

Claims recognised in profit or loss are the periods claims including increases or decreases due to claims from previous fiscal years. Outstanding claims included in Technical provision in the consolidated statement of financial position are the total amount of reported but unpaid claims as well as actuarial provision for claims occurred but unreported.

Notes, contd.:

3. Significant accounting policies, contd.:

k. Income and expense from financial operations

(i) Interest income and expense

Interest income and expense are recognised in profit or loss 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, 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 profit or loss include interest on financial assets and liabilities at amortised cost on an effective interests rate basis and interest on cash and cash equivalents.

(ii) Net income from securities at fair value

Net income from investments in securities consists of changes in fair value of investments and interest income and indexation.

(iii) Net foreign exchange (loss) gain

Net foreign exchange (loss) gain comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies. Net foreign exchange difference is stated in profit or loss within interest income.

l. Operating expenses

Operating expenses consist of salary-, market-, computer-, office- and administration cost, the cost of running properties, depreciation of operating assets, amortisation of intangible assets and other administrative expenses.

m. Impairment losses

Financial assets not at fair value through profit or 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.

All impairment losses are recognised in profit or loss as a separate item.

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.

Notes, contd.:

3. Significant accounting policies, contd.:

n. Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income.

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 financial position 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 recognised 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.

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. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is the same as basic earnings per share as the company has not entered into share options agreements or convertible loan agreements.

p. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

q. New standards and interpretations not yet adopted

The Group has applied all International Financial Reporting Standards, amendments to standards and interpretations that the EU has adopted and are effective at year-end 2010 and are relevant to its operations. The Group has however not adopted standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2010, but can be adopted earlier. The effect on the consolidated financial statements of the Group has not been evaluated, but is not expected to have a material impact.

r. Critical accounting estimates and judgements in applying accounting policies

(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 estimate of the liability that the Group will ultimately pay for such claims. These uncertainties relate to among other things the projections of claims number, the average claims sizes, climate changes and the inflation factor.

3. Significant accounting policies, contd.:

r. Critical accounting estimates and judgements in applying accounting policies contd.:

(ii) Determination of fair values of financial instruments

As indicated the Group's securities are measured at fair value in the consolidated statement of financial position. For the majority of these financial instruments, quoted market prices are not readily available. Therefore, certain financial instruments, for example unquoted securities are fair valued using valuation techniques, including reference to the current fair values of other instruments that are substantially the same, subject to the appropriate adjustments.

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

(iii) Determination of impairment of financial assets

Financial assets accounted for at amortised cost are evaluated for impairment. 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. Changes in assumptions could affect the reported fair value of financial instruments. For example if the credit spread would be 100 basis points higher the fair value of securities would be estimated at 21.648 millj. kr. as compared to their reported fair value of 21.757 millj. kr. at 31 December 2010.

Notes, contd.:

4. Segment Reporting

Segment information is presented in respect of the Group's business, it is based on the Group's management and internal reporting structure. Intersegment pricing is determined on an arm's length basis. Operating profit of a segment, assets and liabilities, include items that belong to certain segment and also items that can be divided between segments in a logical way.

Operating segment

The following segments are the Group's center operation.

* **Property and Casualty insurance**

* **Life insurance**

* **Financial operations**

1 January - 31 December 2010

	Property and casualty insurance	Life insurance	Financial operation	Group
Operating segment				
Premiums, earned	10.869.113	1.179.688	0	12.048.801
Outward reinsurance premiums	(987.587)	(166.030)	0	(1.153.617)
Investment income	1.032.705	66.246	165.814	1.264.765
Other income	73.505	26.643	9.727	109.875
Total income	10.987.736	1.106.547	175.541	12.269.824
Claims incurred	(8.165.606)	(412.748)	0	(8.578.354)
Claims incurred, reinsurers' share.....	693.218	62.693	0	755.911
Operating expenses	(2.394.875)	(229.444)	(219.810)	(2.844.129)
Impairment losses on accounts payable.....	(154.883)	(1.561)	0	(156.444)
Amortisation of intangible assets.....	(427.852)	(3.756)	0	(431.608)
Interest expenses	(6.769)	(1.440)	(338)	(8.547)
Profit (loss) before income tax	530.969	520.291	(44.607)	1.006.653
Income tax				(195.654)
Comprehensive income for the year				810.999
Operating assets	300.251	0	26.892	327.143
Goodwill and brand.....	1.625.000	242.578	0	1.867.578
Other intangible assets.....	5.524.359	22.218	0	5.546.577
Deferred tax asset.....	1.059.778	0	0	1.059.778
Securities	17.646.833	4.110.181	0	21.757.014
Reinsurance assets	948.045	230.430	0	1.178.475
Accounts receivables	2.022.401	211.154	1.849	2.235.404
Cash and cash equivalents	2.289.896	313.669	5.554	2.609.119
Total assets	31.416.563	5.130.230	34.295	36.581.088
Technical provision	19.561.451	997.360	0	20.558.811
Other liabilities	973.577	2.693.662	62.947	3.730.186
Total liabilities	20.535.028	3.691.022	62.947	24.288.997
Capital expenditure.....	78.607	0	9.185	87.792

Notes, contd.:

4. Segment Reporting, contd.:

30 September - 31 December 2009

	Property and casualty insurance	Life insurance	Financial operation	Group
Operating segment				
Premiums, earned	2.707.249	339.772	0	3.047.021
Outward reinsurance premiums	(263.208)	(54.494)	0	(317.702)
Investment income	546.728	4.725	108.447	659.900
Other income	26.814	10.000	1.599	38.413
Total income	3.017.583	300.003	110.046	3.427.632
Claims incurred	(2.218.309)	(57.936)	0	(2.276.245)
Claims incurred, reinsurers' share.....	8.873	37.101	0	45.974
Operating expenses	(620.074)	(48.416)	(84.061)	(752.552)
Impairment losses on acc.payable.....	(23.201)	0	0	(23.201)
Amortisation of intangible assets.....	(102.541)	(313)	0	(102.854)
Interest expenses	(73)	(1.422)	(401)	(1.896)
Impairment losses of goodwill.....	(6.579.000)	0	0	(6.579.000)
(Loss) profit before income tax	(6.516.741)	229.017	25.584	(6.262.141)
Income tax				1.152.338
Comprehensive loss for the period				(5.109.803)
Operating assets	311.245	0	23.145	334.390
Goodwill	1.625.000	242.578	0	1.867.578
Other intangible assets.....	5.898.875	25.974	0	5.924.849
Deferred tax asset.....	1.158.420	0	0	1.158.420
Securities	17.611.011	4.455.048	0	22.066.059
Reinsurance assets	422.946	260.743	0	683.689
Accounts receivables	2.261.339	154.971	558	2.416.868
Cash and cash equivalents	614.097	118.061	13.077	745.235
Total assets	29.902.933	5.257.375	36.780	35.197.088
Technical provision	18.766.311	835.577	0	19.601.888
Other liabilities	1.240.246	2.818.681	55.181	4.114.108
Total liabilities	20.006.557	3.654.258	55.181	23.715.996
Capital expenditure.....	61.842	26.287	0	88.129

Notes, contd.:

5. Income and expense from Property and Casualty insurance

Property and Casualty insurance of the Group's divides as follows:

1 January - 31 December 2010

	Property	Marine	Compulsory motor	Other motor
Gross premiums written	3.103.721	447.523	3.953.985	1.957.135
Premiums	2.987.026	464.916	3.735.113	1.876.000
Claims	(1.401.374)	(223.993)	(3.149.593)	(1.169.059)
Operating expenses	(702.290)	(101.263)	(894.682)	(442.848)
Outward reinsurance	(369.492)	(106.145)	(45.662)	(23.536)
Investment income	78.275	12.126	575.137	25.533
Profit from insurance	592.145	45.641	220.313	266.090
	General liability	Accident and health	Reinsurance	Total
Gross premiums written	851.846	958.074	(3.806)	11.268.478
Premiums	894.263	915.601	(3.806)	10.869.113
Claims	(1.453.141)	(783.362)	14.916	(8.165.606)
Operating expenses	(192.750)	(216.787)	861	(2.549.758)
Outward reinsurance	375.767	(39.639)	(12.157)	(220.864)
Investment income	159.844	152.292	22.729	1.025.936
(Loss) profit from insurance	(216.017)	28.105	22.543	958.821
Amortisation of intangible assets.....				(427.852)
Profit before income tax				530.969

30 September - 31 December 2009

	Property	Marine	Compulsory motor	Other motor
Gross premiums written	637.034	36.175	642.413	309.921
Premiums	735.279	123.804	921.723	465.579
Claims	(260.931)	(61.676)	(1.211.822)	(325.873)
Operating expenses	(174.711)	(29.417)	(219.012)	(110.627)
Outward reinsurance	(71.354)	(76.906)	(10.427)	(3.559)
Investment income	190.865	10.839	192.403	92.857
Profit (loss) from insurance	382.032	(15.968)	(327.135)	125.949
	General liability	Accident and health	Reinsurance	Total
Gross premiums written	128.858	68.236	2.133	1.824.770
Premiums	239.740	218.884	2.240	2.707.249
Claims	(180.647)	(183.920)	6.560	(2.218.309)
Operating expenses	(56.965)	(52.009)	(532)	(643.275)
Outward reinsurance	(63.116)	1.537	(3.695)	(227.520)
Investment income	38.608	20.445	639	546.655
(Loss) profit from insurance	(8.263)	34.256	5.034	164.800
Amortisation of intangible assets.....				(102.541)
Impairment losses on goodwill.....				(6.579.000)
Loss before income tax				(6.516.741)

Notes, contd.:

	2010		2009	
	1.1. - 31.12.		30.9. - 31.12.	
6. Premiums earned, net of reinsurance				
Premiums written.....	12.494.517		2.172.205	
Bonuses and premium provisions.....	(389.583)	(115.459)		
Reinsurers' share.....	(1.117.051)	(179.592)		
Change in the gross provision for unearned premiums.....	(56.133)	990.275		
Change in the provision for unearned premiums, reinsurers' share.....	(36.566)	(138.110)		
Earned premiums, net of reinsurance.....	<u>10.895.184</u>	<u>2.729.319</u>		
7. Investment income				
Interest and similar income specifies as follows:				
Interest income from deposits.....	68.608	31.788		
Interest income from receivables.....	300.822	70.282		
Exchange rate difference.....	(11.552)	(41.968)		
Interest income total.....	<u>357.878</u>	<u>60.102</u>		
Net income from securities at fair value specifies as follows:				
Interest income from securities.....	743.564	288.042		
Indexation from securities.....	434.194	269.919		
Exchange rate difference.....	(3.182)	4.238		
Fair value changes*	(267.689)	37.598		
Net income from securities at fair value total.....	<u>906.887</u>	<u>599.798</u>		
Investment income total.....	<u>1.264.765</u>	<u>659.900</u>		
* Included in fair value changes is an realized loss related to a bond issued by Avant hf. amounting to ISK 857 million.				
8. Claims incurred, net of reinsurance				
Claims paid.....	(7.694.958)	(2.526.005)		
Claims paid, reinsurers' share.....	209.933	125.139		
Change in the provision for claims.....	(883.397)	249.760		
Change in the provision for claims, reinsurers' share.....	545.978	(79.164)		
Claims incurred, net of reinsurance.....	<u>(7.822.443)</u>	<u>(2.230.270)</u>		
9. Operating expenses				
Salaries and related expenses.....	(1.590.348)	(427.023)		
Administration expenses.....	(1.016.085)	(272.498)		
Operating expenses related to housing.....	(199.586)	(42.698)		
Depreciation of operating assets.....	(37.649)	(10.332)		
Amortication of intangible assets.....	(431.608)	(102.853)		
Impairment losses on accounts receivable.....	(156.688)	(23.201)		
Operating expenses total.....	<u>(3.431.964)</u>	<u>(878.606)</u>		
10. Salaries and related expenses				
Salaries.....	(1.209.792)	(333.474)		
Contribution plans.....	(118.112)	(35.153)		
Payroll tax.....	(119.995)	(25.369)		
Other salary related expenses.....	(142.449)	(33.027)		
Salaries and related expenses total.....	<u>(1.590.348)</u>	<u>(427.023)</u>		
Average number of full time equivalent employees	197	193		

Notes, contd.:

10. Salaries and related expenses, contd.:

Salaries and benefits to the CEO, Board of Directors and Executives	2010	2009
	1.1. - 31.12.	30.9. - 31.12.
Lárus Ásgeirsson CEO.....	21.055	3.423
Hörður Arnarson former CEO.....	0	6.415
Heimir V. Haraldsson board member and former chairman of the board.....	2.360	1.800
Frosti Bergsson chairman of the board.....	255	0
Erna Gísladóttir board member.....	1.580	660
Haukur C. Benediktsson board member.....	128	0
Þórhildur Ólöf Helgadóttir board member.....	1.944	720
Kristján Ragnarsson former board member.....	1.450	600
Þórólfur Jónsson former board member.....	1.115	900
Executives 4 (5).....	61.742	18.517

11. Income tax

Income tax is specified as follows:

Current tax payable	94.942	(29.784)
Origination of temporary differences	(290.596)	1.182.122
Total income tax in profit or loss	(195.654)	1.152.338

Effective tax rate:	2010	2009
	1.1. - 31.12.	30.9. - 31.12.
Profit (loss) before income tax	1.006.653	(6.262.141)
Income tax using the Group's tax rate	18,0% 181.198	15,0% (939.321)
Change in domestic tax rate	(10,2%) (103.058)	3,0% (187.864)
Tax effect related to dividend from subsidiary	10,7% 108.000	0,0% 0
Other items	0,9% 9.514	0,4% (25.153)
Effective tax rate	19,4% 195.654	18,4% (1.152.338)

12. Operating assets

Operating assets are specified as follows:

	Property	Fixtures, equipment, and vehicles	Total
Acquired through business combination.....	141.894	185.022	326.916
Other additions during the period.....	1.913	32.251	34.164
Sold during the period.....	0	(16.357)	(16.357)
Total value 31.12.2009.....	143.807	200.915	344.722
Additions during the year.....	0	34.456	34.456
Sold during the year.....	0	(4.054)	(4.054)
Total value 31.12.2010.....	143.807	231.317	375.124
Depreciated during the period.....	988	9.344	10.332
Total depreciation 31.12.2009.....	988	9.344	10.332
Depreciated during the year.....	3.989	33.660	37.649
Total depreciation 31.12.2010.....	4.977	43.004	47.981
Book value 30.09.2009.....	141.894	185.022	326.916
Book value 31.12.2009.....	142.819	191.571	334.390
Book value 31.12.2010.....	138.830	188.313	327.143
Depreciation ratio.....	2-4%	15-33%	

Notes, contd.:

13. Goodwill and other intangible assets with indefinite useful life

Impairment tests for cash-generating units that contain goodwill:

For the purpose of impairment testing, goodwill is allocated to the Group's operations divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 4.

The aggregate carrying amounts of goodwill and brand allocated to each unit are as follows:

Property and casualty insurance	1.625.000
Life insurance	242.578
	<u>1.867.578</u>

At year-end 2010 the goodwill was tested for impairment. The impairment test is based on discounted future cash flows.

The recoverable amounts for the Property and casualty insurance and the life insurance units have been calculated based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

* Cash flows were projected based on past experience by the Group's predecessor, actual operating results and the 5-year business plan. Cash flow for a further 20-year period were extrapolated using a constant growth rate of 3 percent, which is based on the long-term forecast growth rates in the operating country. The forecast period is based on the Group's long-term perspective with respect to the operation of these units.

* Pre-tax discount rate of 12.5 percent was applied in determining the recoverable amounts for the units. This discount rate was estimated based on past experience and the weighted average cost of capital allocated by the Group to these units.

The above estimates are particularly sensitive in the following areas:

- An increase of 1.0 percentage point in the discount rate used would result in an impairment loss in the amount of ISK 597 million.
- A decrease of 0.5 percentage point in the future growth used would result in an impairment loss in the amount of ISK 113 million.

14. Other intangible assets

	Computer Software	Customer relations	Total
Acquired through business combination	541.737	5.432.000	5.973.737
Other additions during the period	53.965	0	53.965
Amortisation of the period	(12.319)	(90.534)	(102.853)
Book value 31.12.2009	583.383	5.341.466	5.924.849
Additions during the year	53.336	0	53.336
Amortisation of the year	(69.475)	(362.133)	(431.608)
Book value 31.12.2010	567.244	4.979.333	5.546.577
Amortisation rate	10-15%	7%	

Notes, contd.:

15. Financial assets

a. Classification and fair value of financial assets:

According to IAS 39 *Financial instruments: recognition and measurement*, financial assets and liabilities are divided into specific categories. The classification affects how the relevant financial instrument is evaluated. Those groups to which the Group's financial assets and liabilities pertain and their basis of measurement are specified as follows:

- Financial assets designated at fair value - are recognized at fair value through profit and loss.
- Receivables - are recognized at the amortized cost value.

The following table shows to which group financial assets and liabilities pertain and their fair value:

31 December 2010

	Designated at fair value	Loans and receivables	Total	Fair value
Securities	21.757.014	0	21.757.014	21.757.014
Reinsurance assets	0	1.178.475	1.178.475	1.178.475
Accounts receivables	0	2.235.404	2.235.404	2.235.404
Cash and cash equivalents	0	2.609.119	2.609.119	2.609.119
Financial assets total	21.757.014	6.022.997	27.780.011	27.780.011

31 December 2009

	Designated at fair value	Loans and receivables	Total	Fair value
Securities	22.066.059	0	22.066.059	22.066.059
Reinsurance assets	0	683.689	683.689	683.689
Accounts receivables	0	2.416.868	2.416.868	2.416.868
Cash and cash equivalents	0	745.235	745.235	745.235
Financial assets total	22.066.059	3.845.792	25.911.851	25.911.851

b. Level of fair value

The 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, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes assets valued using: quoted market prices in active markets for similar assets, quoted prices for identical or similar assets in markets that are considered less active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all assets where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the assets valuation. This category includes assets that are valued based on quoted prices for similar assets where significant unobservable adjustments or assumptions are required to reflect differences between the assets.

Notes, contd.:

15. Financial assets contd.:

	Level 1	Level 2	Level 3	Total
31 December 2010				
Financial assets at fair value	17.445.666	4.033.649	277.699	21.757.014
31 December 2009				
Financial assets at fair value	8.379.876	13.279.500	406.683	22.066.059

No financial assets were transferred between levels in the year 2010.

16. Securities

Securities designated at fair value:	2010	2009
Listed bonds and notes on the Icelandic Stock Exchange	17.445.666	8.379.876
Unlisted bonds and affiliated shares	4.036.132	13.287.364
Unlisted shares	275.216	398.819
Securities total.....	21.757.014	22.066.059
Bonds and notes specify as follows:		
Government	13.503.161	12.545.843
Corporations and Municipals	8.253.853	9.520.216
Bonds and notes total.....	21.757.014	22.066.059

17. Reinsurance assets

Reinsurance share in the technical provisions:

Premiums reserve	122.047	173.423
Claims reserve	1.056.428	510.266
Reinsurance assets total	1.178.475	683.689

18. Accounts receivables

Accounts receivables related to insurance operations	2.924.894	3.014.693
Provision for losses on accounts receivables	(689.490)	(597.825)
Accounts receivables total	2.235.404	2.416.868

Provision for losses on accounts receivables

Provision at the beginning of the year/period	(597.825)	(621.026)
Impairment during the year	(154.065)	(6.056)
Actual losses during the year	62.400	29.257
Provision at the end of the year	(689.490)	(597.825)

19. Share capital and reserve funds

The Company's total share capital according to its Articles of Association amounted to ISK 1,593 million at year-end 2010. Each share of 1 krona carries one vote.

Share premium represents excess of payments above nominal value that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal share capital must be held in reserve which can not be paid out as dividend to shareholders.

Notes, contd.:

20. Earnings per share

Earnings per share are calculated by dividing the net earnings by the average number of shares during the period.

	2010	2009
	1.1. - 31.12.	30.9. - 31.12.
Net profit (loss)	810.999	(5.109.803)
Average number of shares during the period	1.592.522	1.592.522
Basic earnings per share	0,51	(3,21)

Diluted earnings per share is the same as basic earnings per share as the company has not entered into share options agreements or convertible loan agreements.

21. Solvency

According to Icelandic insurance companies laws the minimum solvency of the company at the year-end 2010 was ISK 2,035 million and calculated solvency ISK 4,900 million. Difference on calculated solvency and book value of equity specifies as follows:

	2010	2009
Equity according to Consolidated Statement of Financial position	12.292.091	11.481.092
Goodwill and brand related to insurance operations	(1.867.578)	(1.867.578)
Other intangible assets	(5.524.359)	(5.898.875)
Calculated solvency of the Group	4.900.154	3.714.639

Adjusted solvency of the Group is ISK 4,900 million and the minimum of adjusted solvency is ISK 2,667 million.

Solvency ratio of the Parent Company	2,41	1,83
Solvency ratio from adjusted solvency of the Group	1,83	1,40

22. Technical provisions

Technical provision (gross):		
Claims reported and loss adjustment expenses	13.005.798	12.150.818
Claims incurred but not reported	2.802.168	2.773.751
Claims outstanding	15.807.966	14.924.569
Bonuses and premium provisions	407.395	399.575
Provision for unearned premiums	4.343.450	4.277.744
Technical provision, total	20.558.811	19.601.888

Reinsures' share:

Claims reported and loss adjustments expenses	970.287	405.852
Claims incurred but not reported	86.141	104.415
Claims outstanding, total	1.056.428	510.267
Provision for unearned premiums	122.047	173.422
Reinsures share, total	1.178.475	683.689

Own technical provision (net):

Claims reported and loss adjustment expenses	12.035.511	11.744.966
Claims incurred but not reported	2.716.027	2.669.336
Claims outstanding, total	14.751.538	14.414.302
Bonuses and premium provisions	407.394	399.575
Provision for unearned premiums	4.221.404	4.104.322
Own technical provision (net), total	19.380.336	18.918.199

Notes, contd.:

22. Technical provisions, contd.:

Property and Casualty insurance

Risk related to Property and Casualty insurance, especially accident insurance, depend on many variables which complicate sensitivity analysis. The Group uses statistical 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 these information are not available an average claim value in respective sectors is used but then later revalued with regards to the information received.

The assessment of incurred but not reported claims is based on previously arisen unreported claims during the last ten years by its predecessor. This evaluation is done every quarter.

Enclosed appendix shows the development of the Group's predecessors claims outstanding in property and casualty insurance in the last nine years and the balance at year end 2010.

Life insurance

The assessment of reported claims in general life insurance is rarely subject to great uncertainty. General life insurance assumes for unreported claims approximately 20% of booked premiums for the past year. This is done in order to meet probable delays in reporting insurer's death to the Group. The ratio is higher in health and Critical illness being above 30% due to the character of damage occurrences. A considerable amount of time can be assumed for from the beginning of a disease until a claim is reported to the Group. Compared to historical experience, it can be assumed that this ratio is estimated with sufficient precision.

Provision for unearned premiums are the premiums that have been recognized for insurance periods occurring after the end of the financial year.

23. Deferred tax asset (liability)

	2010	2009
The deferred tax (asset) liability is specified as follows:		
Deferred income tax asset (liability) transferred to the Group.....	1.133.521	(48.600)
Income tax recognised in profit or loss.....	(195.654)	1.152.338
Income tax payable.....	92.715	29.783
Deferred income tax asset at end of period.....	<u>1.030.582</u>	<u>1.133.521</u>
Deferred income tax asset at year-end.....	1.059.778	1.158.420
Deferred income tax liability at year-end.....	(29.196)	(24.899)
	<u>1.030.582</u>	<u>1.133.521</u>

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

Operating assets.....	599.046	669.200
Intangible assets.....	(373.516)	(8.270)
Accounts receivables.....	11.597	4.176
Tax loss carry-forward.....	807.775	466.774
Other items.....	(14.320)	1.641
Deferred net income tax asset at year-end.....	<u>1.030.582</u>	<u>1.133.521</u>

Notes, contd.:

24. Accounts payable and other liabilities:

Accounts payable.....	1.038.957	1.180.162
Reinsurance, debt.....	166.799	171.645
Income tax payable.....	92.715	105.786
Accounts payable and other liabilities total.....	<u>1.298.471</u>	<u>1.457.593</u>

Notes, contd.:

Risk management

25. Overview

The Group has exposure to the following risks:

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

This note presents narrative and quantitative information 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 management of capital.

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 to develop 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 intraday bases by the Group's employees.

26. 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.

The Group has invested in investment securities and cash and cash equivalents in the effort to balance the exposure to market and currency risk.

	2010	2009
Listed securities on the Icelandic Stock Exchange	17.445.666	8.379.876
Unlisted securities	1.908.829	11.054.566
Securities total	21.757.014	19.434.442
Accounts receivables	2.235.404	2.416.868
Cash and cash equivalents	2.609.119	745.235
Total	<u>26.601.536</u>	<u>22.596.546</u>
Insurance contracts short term, net	<u>19.380.336</u>	<u>18.918.199</u>

Securities are presented net of securities related to life-assurance policies where the investment risk is borne by the policyholders.

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 mean duration.

Notes, contd.:

26. Insurance risk, contd.:

The mean duration of insurance liabilities is calculated using the Group's and its predecessor historical data to determine the expected settlement pattern for claims arising from insurance contracts in the technical provision in the statement of financial position, both reported claims and incurred claims not reported at the reporting date.

	2010	2009
Insurance liability - life risk	1,1	1,1
Insurance liability - property risk	1,2	1,2
Insurance liability - casualty risk	2,5	2,7

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:

	Carrying amount	Contractual cash flows (undiscounted)				
		0-1 yr	1-2 yr	2-3 yr	3-4 yr	> 5 yrs
31 December 2010						
Financial assets, linked to insurance contracts						
Debt securities at fair value through profit or loss:						
Listed securities on ISE .	17.445.666	3.340.526	9.191	0	0	14.095.949
Unlisted securities	4.311.348	3.192.650	295.050	808.405	15.243	0
Total debt securities	21.757.014	6.533.176	304.241	808.405	15.243	14.095.949
Accounts receivables	2.235.404	2.235.404	0	0	0	0
Cash and cash equivalents .	2.609.119	2.609.119	0	0	0	0
Total	26.601.536	11.377.698	304.241	808.405	15.243	14.095.949

	Expected cash flows					
Insurance contracts, net	19.380.336	10.032.403	4.005.608	2.291.686	2.062.366	988.273
Difference in cash flows ..	7.221.200	1.345.295	(3.701.367)	(1.483.281)	(2.047.123)	13.107.676

	Carrying amount	Contractual cash flows (undiscounted)				
		0-1 yr	1-2 yr	2-3 yr	3-4 yr	> 5 yrs
31 December 2009						
Financial assets, linked to insurance contracts						
Debt securities at fair value through profit or loss:						
Listed securities on ISE .	8.379.876	1.664.572	5.486	60.386	0	6.649.432
Unlisted securities	11.054.566	45.382	1.364.492	1.362.657	1.358.682	6.923.353
Total debt securities	19.434.442	1.709.954	1.369.978	1.423.043	1.358.682	13.572.785
Accounts receivables	2.416.868	2.416.868	0	0	0	0
Cash and cash equivalents .	745.235	745.235	0	0	0	0
Total	22.596.546	4.872.058	1.369.978	1.423.043	1.358.682	13.572.785

	Expected cash flows					
Insurance contracts, net	18.918.199	10.000.130	3.384.636	2.011.688	1.190.261	2.331.484
Difference in cash flows ..	3.678.347	(5.128.072)	(2.014.658)	(588.645)	168.421	11.241.301

Notes, contd.:

26. Insurance risk, contd.:

Interest rate risk

The majority of the Group's financial assets are interest-bearing with fixed interest rate from 3% to 7%. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial assets and insurance contracts, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks. Any excess cash and cash equivalents of the Group are invested in short-term commercial paper with the term to maturity no longer than one month.

The Group's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 100 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Group's overall exposure to interest rate sensitivities.

An increase of 100 basis points in interest yields would result in a loss for the year of 100 million in 2010 (2009: loss of 65 million). A decrease of 100 basis points in interest yields would result in a gain for the year of 110 million in 2010(2009: gain of 75 million).

Price risk

Sensitivity analysis for price risk illustrates how changes in 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 with fair value changes recognised in profit or loss, all changes in market conditions will directly affect investment income.

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).

27. 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 Group's management looks to minimize this risk factor by only entering agreements with solid and well known institutions in addition to closely monitoring the credit risk on an ongoing basis.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2010	2009
Bonds and notes	19.354.495	19.434.442
Reinsurance receivables	17.321	0
Accounts receivables	2.218.083	2.416.868
Cash and cash equivalents	2.609.119	745.235
Total financial assets	<u>24.199.018</u>	<u>22.596.545</u>

Securities are presented net of securities related to life-assurance policies where the investment risk is borne by the policyholders.

Notes, contd.:

28. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The risk management of the Group mitigates the liquidity risk by assuring adequate liquidity through unforeseen changes in funding sources or market disruption. The Group's financial instruments include investments in unlisted equity investments. 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 financial investments, which represent large part of the total assets, are considered to be readily realisable.

The breakdown by contractual maturity of assets and expected maturity of liabilities, excluding interest:

	On demand	0-1 year	1-5 years	Over 5 years	No stated maturity	Total
31 December 2010						
Assets:						
Securities	3.331.521	3.201.841	1.112.460	14.111.192	0	21.757.014
Reinsurance assets	0	1.178.475	0	0	0	1.178.475
Accounts receivables	0	2.235.404	0	0	0	2.235.404
Cash and cash equivalents .	2.609.119	0	0	0	0	2.609.119
Total financial assets	5.940.640	6.615.719	1.112.460	14.111.191	0	27.780.010
Liabilities:						
Technical provision	0	10.461.308	9.030.433	813.960	253.110	20.558.811
Technical provision for life- assurance policies where the investment risk is borne by the policyholders	0	2.402.519	0	0	0	2.402.519
Accounts payable	0	1.298.471	0	0	0	1.298.471
Total financial liabilities	0	14.162.298	9.030.433	813.960	253.110	24.259.801
Assets - liabilities	5.940.640	(7.546.578)	(7.917.973)	13.297.231	(253.110)	3.520.209
31 December 2009						
Assets:						
Securities	0	4.341.571	4.151.703	13.572.785	0	22.066.059
Reinsurance assets	0	683.689	0	0	0	683.689
Accounts receivables	0	2.416.868	0	0	0	2.416.868
Cash and cash equivalents .	745.235	0	0	0	0	745.235
Total financial assets	745.235	7.442.128	4.151.703	13.572.785	0	25.911.851
Liabilities:						
Technical provision	0	10.450.233	6.727.085	2.149.789	274.781	19.601.888
Technical provision for life- assurance policies where the investment risk is borne by the policyholders	0	2.631.617	0	0	0	2.631.617
Accounts payable	0	1.457.593	0	0	0	1.457.593
Total financial liabilities	0	13.081.850	6.727.085	2.149.789	274.781	23.691.098
Assets - liabilities	745.235	(5.639.722)	(2.575.382)	11.422.996	(274.781)	2.220.753

Notes, contd.:

29. 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.

30. Currency risk

The Group's exposure to foreign currency risk was as follows:

31 December 2010	USD	EUR	Other	Total
Assets:				
Securities	1.528.472	1.010.742	0	2.539.214
Reinsurance assets	79.565	0	0	79.565
Cash and cash equivalents	146.169	31.892	3.906	181.967
Total	1.754.206	1.042.634	3.906	2.800.746
Liabilities and equity:				
Technical provision	390.795	0	0	390.795
Technical provision for life-assurance policies where the investment risk is borne by the policyholders	1.395.261	461.256	0	1.856.517
Total	1.786.056	461.256	0	2.247.312
Net financial position	(31.850)	581.378	3.906	553.434
31 December 2009				
Assets:				
Securities	1.775.616	537.116	0	2.312.732
Reinsurance assets	96.289	0	0	96.289
Cash and cash equivalents	184.122	29.447	7.539	221.108
Total	2.056.027	566.563	7.539	2.630.129
Liabilities and equity:				
Technical provision	413.899	0	0	413.899
Technical provision for life-assurance policies where the investment risk is borne by the policyholders	1.628.941	475.918	0	2.104.859
Total	2.042.840	475.918	0	2.518.758
Net financial position	13.187	90.645	7.539	111.371

31. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

To reduce operational risk there are among other things requirements for appropriate segregation of duties, requirements for the reconciliation and monitoring of transactions, compliance with regulatory and other legal requirements, requirements for the periodic assessment of operational risks faced, training and professional development.

Notes, contd.:

32. Capital management

The Board's policy is to maintain a strong capital base so as to maintain the required level of stability and thereby providing a degree of security to policyholders. To allocate capital efficiently and support the development of business by ensuring that returns on capital employed, meet the requirements of its capital providers and of its shareholders. To retain financial flexibility by maintaining strong liquidity. To align the profile of assets and liabilities taking into account the risks inherent in the business. To maintain financial strength to satisfy the requirements of the policyholders, regulators and stakeholders. To maintain healthy capital ratios in order to support its business objectives and maximise shareholders value.

The operations of the Group are subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. Capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The Group's capital management policy is to hold sufficient capital to cover the statutory requirements based on the requirements of the regulator.

33. Related parties

Definition of related parties

The Group has a related party relationship with its shareholders, subsidiaries, board of directors of the parent company and the CEO.

Significant shareholders specify as follows at year end:	2010	2009
Eignasafn Seðlabanka Íslands ehf.	73,0%	-
SAT Eignarhaldsfélag hf.	17,7%	90,7%
Íslandsbanki hf.	9,3%	9,3%

Eignasafn Seðlabanka Íslands ehf. is a government-related entity. No unusual transactions took place with that shareholder and other government-related parties in the year 2010.

Transactions with related parties and key employees

In June 2010 shareholders agreed to exchange securities issued by Askar Capital hf. and Fasteign hf. in the amount of ISK 7,488 million, that had been received as payment for share capital at the establishment of the Company, with securities issued by Landsvirkjun and Íslandsbanki hf. according to third party valuation. At the same time a bond issued by Avant hf. and collateral was exchanged for cash with a discount of ISK 857 million.

No unusual transactions took place with related parties related to insurance operations in the year 2010 and in the period from 30 September to 31 December 2009.

The salaries of the board of directors and managers are disclosed in note 10.

34. Companies in the Group

	Location	Share 2010	Share 2009
Sjóvá-Almennar líftryggingar hf.	Iceland	100,0%	100,0%
Sjóvá Forvarnahúsið ehf.	Iceland	100,0%	100,0%

35. Other matters

EFTA surveillance Authority (ESA) made a decision in September 2010 to start formal investigation procedure on the recapitalization of Sjóvá by the Icelandic state. Sjóvá's operation is not affected by the investigation. ESA is expected to release its findings in second or third quarter 2011. It is not possible at this moment to estimate what effect, if any, ESA's rule will have on Sjóvá's operation.

Notes, contd.:

36. Subsequent events

On 19 January 2011 Eignasafn Seðlabanka Íslands ehf. entered into an agreement with the investment fund SF1 to sell 52.40% of total shares in Sjóvá-Almennar tryggingar hf. If all conditions in the agreement are met and approval will be given by the authorities, the share of Eignasafn Seðlabanka Íslands ehf. will reduce to 20.63%.

37. Financial Ratios

The Group's principal financial ratios:

	2010	2009
Claim's ratio - claims of the period / premiums of the period	71,2%	74,8%
Reinsurance ratio	2,5%	7,6%
Cost ratio	21,9%	20,7%
Combined ratio - (claims +reinsurance + cost)	95,6%	103,1%
Equity ratio	33,6%	32,6%

Supplement to note 22 (unaudited)

Movements in technical provisions:

The Company was founded on 30 September 2009 for the purpose to overtake the insurance operations and related obligations from SJ Eignarhaldsfélag hf. (then by the name of Sjóvá-Almennar tryggingar hf., Reg.no. 701288-1739). As the Company has overtaken all obligations related to the insurance operations the development of the Group's claims outstanding in property and casualty insurance in the last nine years and its balance at year end 2010 is shown below.

As a supplement to future estimates the development of technical provision demonstrates the Group's ability to determine the final claim amount in the claim year. The upper part of the table shows how the group values its total claim amount for the past years (current estimate of cumulative claims). The lower part of the table shows the total amount for claims at year end 2010 for every claim year when payments have been deducted or the technical provision according to the Group's books (claims outstanding).

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Total amounts										
Estimate of ultimate claims costs:										
-at year end	7.031.036	6.643.424	7.748.710	7.616.027	9.057.079	8.817.003	9.823.272	8.625.808	7.905.729	
-one year later	7.070.761	6.553.576	7.500.834	7.268.571	8.739.009	8.991.159	9.890.147	8.785.132		
-two years later	7.029.967	6.619.423	7.540.573	7.207.862	8.658.409	8.807.657	9.715.068			
-three years later	6.941.798	6.669.238	7.520.605	7.017.258	7.993.002	8.611.302				
-four years later	6.920.797	6.684.360	7.337.736	6.244.683	8.041.883					
-five years later	6.858.598	6.299.620	6.806.860	6.362.024						
-six years later	6.530.452	5.793.524	6.950.857							
-seven years later	6.237.654	5.888.921								
-eight years later	6.278.107									
Current estimate of cumulative claims	6.278.107	5.888.921	6.950.857	6.362.024	8.041.883	8.611.302	9.715.068	8.785.132	7.905.729	68.539.023
Cumulative payments to date	(6.047.801)	(5.547.731)	(6.519.155)	(5.784.072)	(7.156.607)	(7.347.978)	(7.502.377)	(4.936.646)	(3.071.093)	(53.913.461)
Claims outstanding	230.306	341.189	431.702	577.952	885.276	1.263.323	2.212.691	3.848.486	4.834.636	14.625.562
Claims outstanding in respect of prior years										656.520
Claims outstanding for life insurance										525.884
Total claims outstanding at the end of year 2010										15.807.966

Supplement to note 22 (unaudited), contd.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Claims, own share										
Estimate of ultimate claims costs:										
-at year end	5.871.086	6.258.410	7.219.496	7.398.037	8.384.400	8.750.805	9.506.776	8.490.189	7.844.762	
-one year later	6.030.714	6.139.446	7.065.070	7.072.802	7.996.434	8.880.064	9.789.629	8.094.115		
-two years later	5.946.296	6.065.451	6.971.779	7.023.040	7.931.445	8.774.262	9.288.286			
-three years later	5.831.737	6.131.344	6.940.127	6.846.763	7.973.102	8.460.647				
-four years later	5.887.920	6.142.610	6.772.162	6.230.631	7.317.562					
-five years later	5.819.718	5.757.015	6.750.761	6.151.741						
-six years later	5.494.135	5.769.275	6.413.221							
-seven years later	5.226.337	5.339.713								
-eight years later	5.272.862									
Current estimate of cumulative claims	5.272.862	5.339.713	6.413.221	6.151.741	7.317.562	8.460.647	9.288.286	8.094.115	7.844.762	64.182.909
Cumulative payments to date	(5.049.614)	(5.011.714)	(6.018.613)	(5.600.624)	(6.432.286)	(7.231.710)	(7.185.183)	(4.870.662)	(3.024.988)	(50.425.395)
Claims outstanding	223.247	327.999	394.608	551.118	885.276	1.228.937	2.103.103	3.223.453	4.819.774	13.757.514
Claims outstanding in respect of prior years										632.437
Claims outstanding for life insurance										361.587
Total claims outstanding at the end of year 2010, own share										14.751.538