



Annual Report 2008

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Key figures

	2008	2007	2006	2005	2004
Premiums, written	13.146	11.504	9.495	7.809	7.178
Premiums, earned	12.367	10.831	8.956	7.806	7.619
Investment income from insurance operations	2.029	1.744	1.649	1.524	1.654
Other income from insurance operations	182	32	0	0	0
Claims incurred	-10.941	-8.745	-7.586	-6.297	-5.945
Operating expenses	-2.463	-2.080	-2.244	-2.142	-1.946
Reinsurance expenses	-339	-510	-508	-651	-532
Profit from insurance operations	836	1.272	267	240	850
Profit (loss) from financial operations	-468	5.839	5.334	9.782	2.134
Other income	0	0	51	46	-22
Taxes	-126	3.881	-566	-1.672	-437
Profit after taxes	242	10.992	5.086	8.396	2.525
Equity	9.678	10.236	20.298	26.981	7.940
Technical provision	20.720	19.667	18.714	17.708	18.345
Other liabilities	1.581	1.347	6.620	6.461	4.394
Equity and liabilities total	31.979	31.250	45.632	51.150	30.679
Claims ratio	88,5%	80,7%	84,7%	80,7%	78,0%
Cost ratio	19,9%	19,2%	25,1%	27,4%	25,5%
Reinsurance expenses ratio	2,7%	4,7%	5,7%	8,3%	7,0%
Combined ratio	111,1%	104,7%	115,4%	116,4%	110,6%
Investment income and other income	17,9%	16,4%	18,4%	19,5%	21,7%
Operating ratio	94,3%	89,9%	97,5%	97,4%	90,8%
Own technical provision / Retained premiums	169,2%	186,3%	236,9%	258,7%	260,3%
Equity ratio	30,3%	32,8%	44,5%	52,7%	25,9%
Return on equity	2,3%	55,3%	28,8%	39,4%	36,4%
Solvency	9.678	10.236	18.798	26.331	7.290
Minimum solvency	2.200	1.862	1.559	1.408	1.377
Solvency ratio	4,40	5,50	12,06	18,70	5,29

Note:

International Financial Reporting Standards (IFRS) were implemented in 2005, so figures from 2004 need to be read in this light. Comparison figures from older years have been changed to conform to the presentation of the financial statements for 2008..

Statements by the Chairman of the Board and CEO



Lydur Gudmundsson

Lydur Gudmundsson, Chairman of the Board

When an economic crisis strikes, the very foundations of economic life and companies are tested. VÍS's operating performance for 2008 reflects the company's strength, the result of a strategy in place since Exista became the sole owner of VÍS in the summer of 2006.

There has been a systematic reduction of market risk in VÍS's assets in recent years, a strategy that provided important shelter for the company when the financial market collapsed in 2008. Riskier assets, such as stocks, were transferred to other entities within the Exista group, while less risky investments, including government securities and bank deposits, were increased.

These moves contributed to the security of policyholders being as stable as possible. At the same time, improvements in the insurance company's operations have proved successful, for example the good performance of the insurance sector despite an unusually large amount of claims during the year. I would like to use this opportunity to thank the staff of VÍS for a job extremely well done, as well as thank our customers for their business in 2008.



Gudmundur Orn Gunnarsson

Guðmundur Orn Gunnarsson, CEO

The year 2008 was a difficult one for the Icelandic nation. The collapse of the banks, the crash of the Icelandic króna, inflation and economic recession put both families and companies in an extremely difficult position. This crisis had an impact on VÍS, just as on other companies. Nevertheless, it was possible to show a profit of ISK 242 million, which must be considered very satisfactory under these difficult conditions. The insurance operation returned a profit of ISK 836 million, but there was a loss on investment activities.

During 2007 and early 2008 changes were made in VÍS's investing strategy. Investments were moved from common stocks over to government securities and bank deposits. When Exista took over the company in 2006, the decision was made to operate VÍS in a way similar to other insurance companies in the Nordic countries, with primary emphasis on insurance operations. This involved transferring the company's investments to less risky areas that provide more uniform yields. The change in strategy resulted in less loss than the company would have otherwise experienced from the bank collapse.

It is important for insurance policyholders and claimants that the insurance company's assets are trustworthy, and that their composition diversifies risk. The overall assets of VÍS are very dependable. The company's insurance liabilities, i.e. company liabilities resulting from compensation to claimants, was about ISK 20 billion at year-end, and assets that are put aside to pay the debt are highly reliable: about 94% were in government securities and bank deposits.

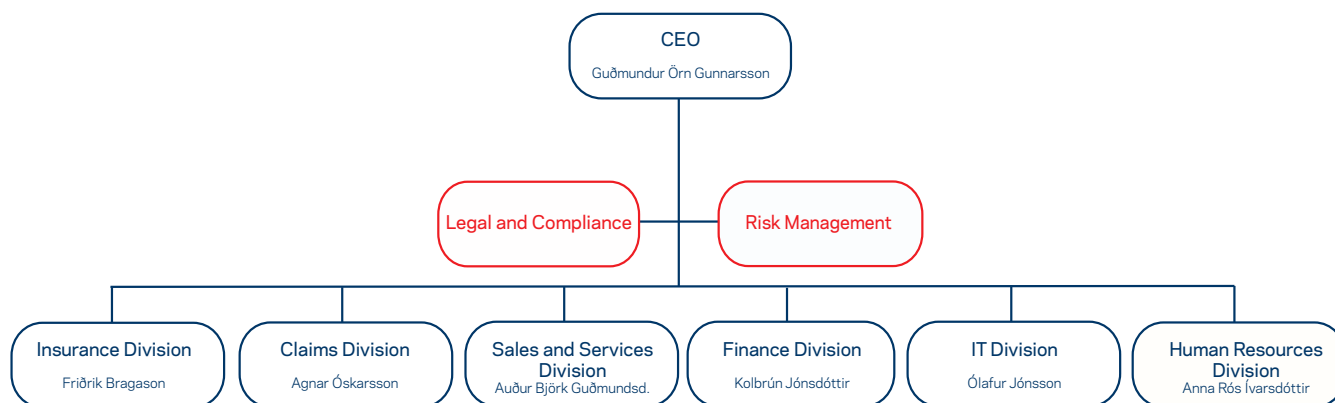
VÍS employees played a large role in how well the year developed. There were many events during the year, for example storms, natural disasters and the upheaval on the financial markets. However, by pulling together as a team the company succeeded in working through the numerous difficulties as they appeared.

Now is the time for rebuilding.

Conditions must be created that allow companies to operate in a healthy environment. If not, then unemployment will increase and more homes will find themselves in difficulty. Inflation needs to be comparable to the best that our neighbouring countries are experiencing. Interest rates need to drop and loan capital must start flowing. The government must make swift decisions. Well-educated and hard working people live in Iceland. Together, we will work our way out of this challenge.

Yes, now is the time for rebuilding.

New organisational structure and management board



VÍS implemented a new organisational structure on 1 March 2008. At the same time, a new management board became effective, comprising the Division Managers and CEO.

The Insurance Division is responsible for risk assessment, pricing and product development for life and non-life insurance for private and corporate markets. The Insurance Division is also responsible for the company's overseas operations. Division Manager is Fridrik Bragason.



The Claims Division is responsible for loss assessment, determination of compensation and settlement of losses. Division Manager is Agnar Óskarsson.



The Sales and Services Division is responsible for sales and services of life and non-life insurance to individuals, companies, municipalities and institutions. The Division operates the company's branch offices, the marketing department and the call centre. Division Manager is Audur Bjork Gudmundsdóttir.



The Finance Division is responsible for accounts, collections, settlements, bookkeeping and planning. Finance Division is also responsible for operational issues. Division Manager is Kolbrun Jonsdottir.



The IT Division is responsible for the company's information technology services, IT policy, development of IT systems and the operation of all hardware and communication systems. Moreover, the IT Division operates the company's project office, which is responsible for the project management of all major VÍS projects. Division Manager is Olafur Jonsson.

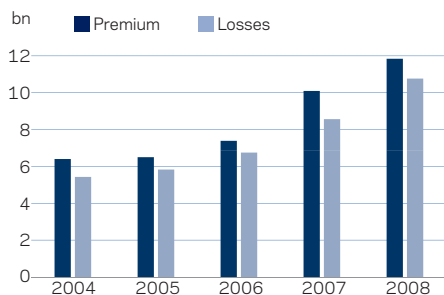


The Human Resources Division is responsible for all staff issues, career development and the company's educational matters, as well as providing advice to employees and management. Division Manager is Anna Ros Ivarsdottir.

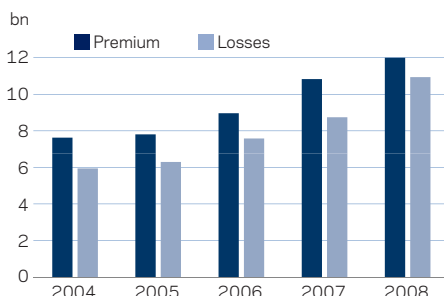


Operations 2008

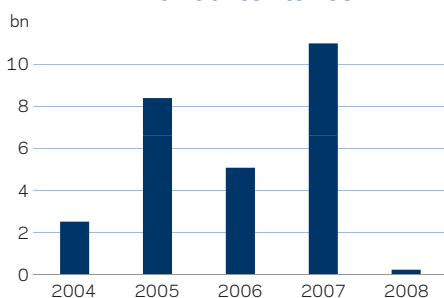
Premiums and losses retained



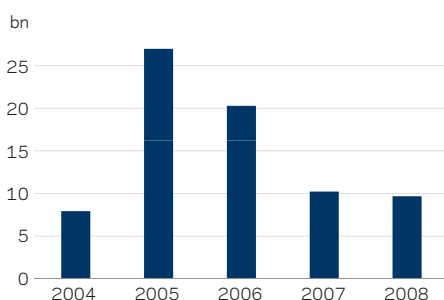
Premiums earned and losses incurred



Profit after taxes



Equity



Premiums

Premiums earned totalled ISK 12,367 million, which is an increase of 14.1% from 2007. Retained premiums totalled ISK 11,847 million, an increase of about 17.3% from the previous year.

Claims

Claims incurred totalled ISK 10,940 million, an increase of 25.1% from the previous year. Claims retained totalled ISK 10,771 million, which is an increase of about 25.7% from the year before. The claims ratio for the year was 88.5% compared with 80.7% in 2007.

Operating expenses

Operating expenses relating to VÍS's insurance operations rose by about ISK 383.5 million from the year before, or about 18.4%. The increase in operating expenses is primarily the result of increases in supplies, changes in the company's housing facilities and costs of a new computer system. Operating expenses for the year were 19.9% of premiums earned, compared with 19.2% in 2007.

Financial operations

Income and expenses of financial operations totalled ISK 1,561 million, a reduction of 79.4% from the previous year. The company's operating revenue jumped significantly from 2007, or from ISK 2,666 million to ISK 6,109 million. Value adjustments of investments were negative by about ISK 2,490 million, but were positive by about ISK 4,539 million the year before. Write-down on financial assets were ISK 1.812 million, but were zero in 2007.

Profit

Profit from insurance operations totalled ISK 836 million, while losses from financial operations totalled ISK 468 million. Profit after taxes totalled ISK 242 million, which is considerably less than the previous year. The main reason for less profit is the result of shrinkage in operating revenue due to difficulties in the financial markets.

Investments

At the end of 2008, VÍS's investment portfolio totalled ISK 28,512 million, a slight increase year-on-year, or about 3.5%. Several changes were made in the composition of the company's portfolio from the previous year. At the end of 2008, there was almost ISK 20 billion of VÍS's portfolio in Government backed securities and deposits.

Equity

VÍS's equity at the end of 2008 was ISK 9,678 million, a decrease of about 5.5% from the year before. Equity ratio at year-end 2008 was 30.3%, compared with 32.8% in 2007.

Liabilities

VÍS's total liabilities at year-end 2008 totalled ISK 22,301 million, but were ISK 21,014 million in 2007, an increase of about 6.0%. Insurance liabilities were ISK 20,720 million, an increase of about 5.6% from the year before.

Cash flow

Net cash from operating activities was ISK 1,514 million, and was ISK 549 million in 2007. Investment activities were ISK 6,524 million, but were negative by about ISK 9,923 million in 2007.

Net cash from operating activities

Net cash from operating activities at year-end was ISK 8,898 million, an increase of about 7,239 million from the year before when year-end net cash from operating activities was ISK 1,659 million.

Operating profit of insurance segments

Property insurance

Premiums totalled ISK 3,062 million, an increase of 12.3% from 2007. Performance was negative by about ISK 266 million, explained primarily by enormous claims from homeowner insurance. Storms, water damage and increases in costs of materials are among the factors that led to increases in claims incurred.

Marine insurance

Premiums totalled ISK 455 million, a 4.4% increase from 2007. Performance was positive by about ISK 56 million.

Mandatory motor insurance

Premiums for the year amounted to ISK 4,624 million, a 13.4% increase from the previous year. Profit for this segment was ISK 1,442 million, explained in part by positive developments of older claims.

Other motor insurance

Premiums totalled ISK 1,994 million, a 22.5% increase over 2007. The increase is due to growth in insurance policies, increases in premiums and indexation changes. Performance in this segment has been negative in recent years, and efforts were unfortunately not successful in reversing this trend during the year. Results were negative by about ISK 248 million

Liability insurance

Premiums for liability insurance were ISK 717 million, a 7.0% decrease from the year before. Claims during the year were unusually high, resulting in a segment loss of ISK 104 million.

Accident and Health insurance

Premiums from personal accident insurance totalled ISK 1,335 million, an increase of 25.4% from 2007. The increase is mostly related to growth in international personal accident and travel insurance. There was a negative result of ISK 149 million, mostly due to heavy claims in travel insurance and personal accident insurance for fishermen.

Foreign reinsurance

Premiums earned from foreign reinsurance was ISK 182 million, which is an increase of almost 46% from 2007, and derives mostly from international marine insurance. Profit from foreign reinsurance was ISK 106 million.

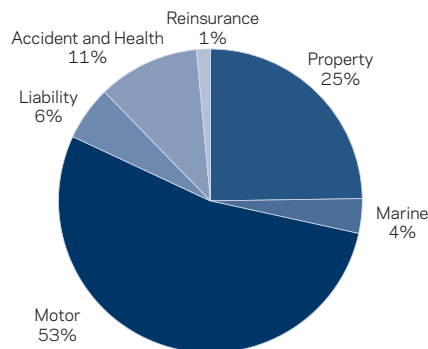
Investment activities

VÍS operates according to an investment strategy that was initially approved in 2007 and is regularly reviewed. Investment in assets that offset the company's insurance liabilities is based on Regulation no. 646/1995 with later amendments. The year 2008 was shaped in large part by the global financial crisis. During 2007, VÍS significantly reduced its investment portfolio, which had a positive effect on the results of investment activities. At the end of 2008, the company had assets of about ISK 20 billion in Government backed securities and deposits. Return on the year was acceptable considering circumstances, as the investment segment showed a profit of about ISK 1,561 million, equal to an annual rate of return of 5.5%. Write-down on financial assets totalled about ISK 1,812 million, resulting in the operating profit from financial operations being negative by about ISK 468 million over the year. In light of the current situation, the company views a 6.4% write-down of financial assets to be acceptable.

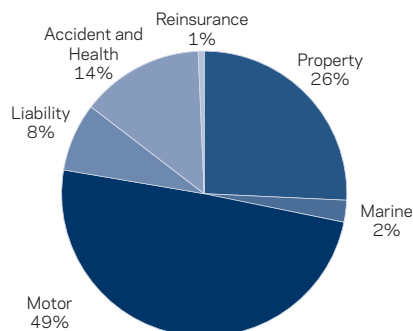
Impact of financial crisis on operations at VÍS

After a period of strong economic growth over the past few years, a major downswing occurred that led to a deep economic depression in late 2008. The year will probably be remembered in history as the year of global economic

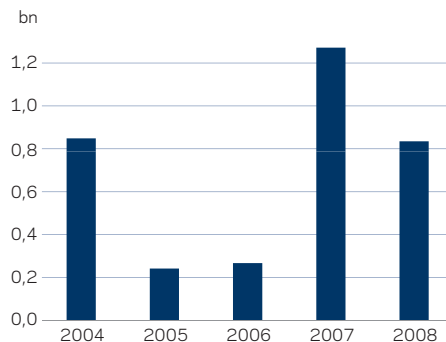
Premiums earned by branches



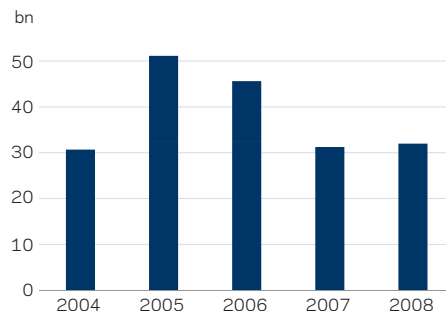
Losses incurred by Branches



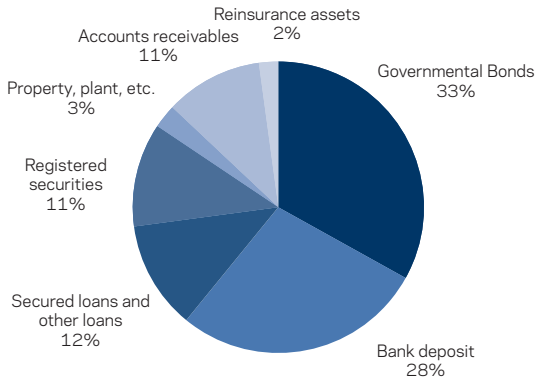
Result from insurance operation



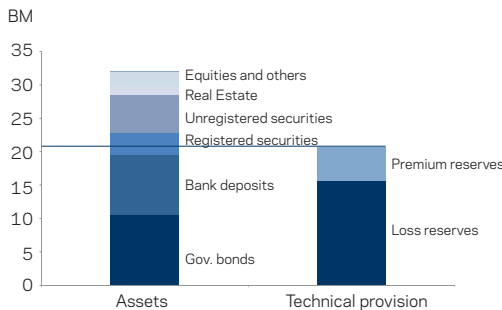
Total assets



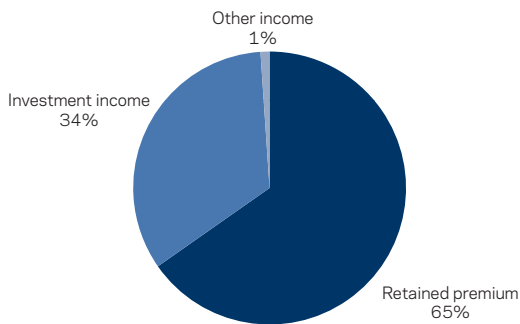
Composition of assets at year end 2008



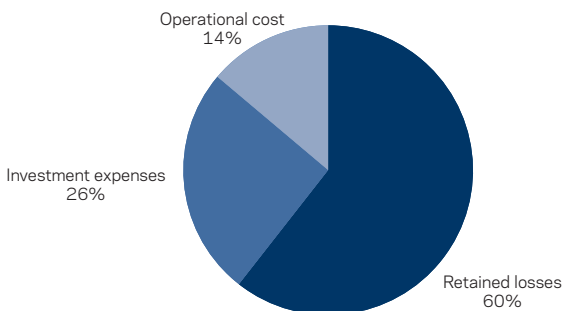
Composition of assets matching technical provision



Income 2008



Expenses 2008



upheaval. The financial markets in Iceland were not immune to the crisis, as the credit crunch experienced by Icelandic banks dramatically impacted business and family life. From the time Iceland's banks collapsed last October and the Icelandic government took over their operations, Icelanders have been experiencing colossal difficulties. The value of the Icelandic króna crashed, foreign currency was rationed and a special emergency law was passed to ensure fund-flow. A major economic recession followed, particularly in private consumption, and in December, there was a significant surplus in the balance of payments. Unemployment grew rapidly in the early days of last fall, first in the construction industry and in ever-growing numbers after the banks collapsed, a trend that is expected to continue in 2009. Consequences of the economic crisis inevitably affect operations at VÍS. As can be seen in the company's accounts, the operating profit from investment activities is much more unfavourable than in recent years. This is mainly due to considerably poorer performance by investment activities resulting from depreciation and impairment of the company's investment securities.

Risk management

Risk management is a growing segment of operations at VÍS, and has been given more weight within the company's organisational structure. This development goes hand-in-hand with the changes appearing in the new solvency directives being discussed by the EU, which will include Icelandic insurance companies. These new solvency requirements, called Solvency II, become effective in 2012. The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has, in cooperation with insurance companies in the EEA, conducted Quantitative Impact Studies (QIS) to determine the impact that various implementations of solvency requirements have on the calculated solvency of insurance companies. The fourth QIS study was conducted during the year and VÍS has always participated. The conclusion demonstrates the strong position held by VÍS according to the pending solvency directives.

Risk management is a fundamental element in insurance operations. Performance of the various insurance segments are closely monitored, all endeavours are made to ensure that premiums coincide with the risk assigned to the insurance contracts, major risks are specially examined and assessed, and efforts are made to strengthen claims protection. Limits have been set on the underwriting risk that the company is prepared to retain, for own account, and a policy has been demarcated regarding how the company structures its reinsurance programmes. The company's reinsurance policy stipulates limits for risks retained for own account, type of reinsurance contracts, requirements regarding the reinsurer's security rating, maximum risk placed with each reinsurer, and limitations on the number of reinsurers on reinsurance contracts.

Heightened emphasis is placed on risk management in the company's financial operations. The company has an investment strategy that places great importance on secure and diversified assets and risk spreading. The company's portfolio of assets has been changed to conform to the investment strategy. Risk management by VÍS's parent company involves actively monitoring the company's investments, and regularly submitting reports to the board of VÍS regarding compliance with the company's investment strategy and implementation of the investment limits that have been set by the company's board.

The company intends to increase risk diversification in insurance operations by underwriting insurance risks from abroad, albeit in limited quantity. As part of this move the company intends to receive a security rating from credit rating company Standard & Poor's. Preparations were well under way last fall when the situation in the financial markets changed. As a result the evaluation process then stopped, and is currently in a waiting mode until conditions reach the point where the process can be concluded.

Reinsurance

A new reinsurance policy was formulated for 2007, which was carried over into 2008. Part of that policy required that all reinsurers for VÍS have a Standard & Poor's security rating of A- or higher. This minimises reinsurance risk for VÍS, i.e. that the reinsurer does not uphold his obligations. Operating profit of reinsurers was generally good during 2007. Results for 2008 were expected to be as good or better, which was the case. VÍS's reinsurance terms are good, as the company benefits from few claims having fallen on reinsurers for VÍS in recent years. Expenses relating to reinsurance are about 2.7% of premiums earned.

Storms and their impact

A total of about 400 storm claims were reported to VÍS during 2008, of which 225 were because of a storm that hit Iceland on 8 February.

Over recent years, VÍS has analysed and risk assessed potential claims due to storms, based on data collected from the storm that hit Iceland in February 1991. Claims on the company caused by the storm adjusted to 2009 price levels are estimated at ISK 624 million. No storm of this magnitude has appeared since that has caused as much damage. It is important to estimate as best as possible the claims that could be incurred due to storms. One of the conclusions of the research is that storms in Iceland could become much worse than the one which caused the most damage of all in 1991. Much has changed in Iceland since then. Reykjavík and neighbouring municipalities have grown and expanded. Residential areas have replaced much that was open land 18 years ago, and many of these areas are located at or above 120 - 130 metres above sea level.

Construction techniques have changed. Glass surfaces are larger, and outer walls are covered with material that could increase risk of large claims resulting from bad weather. There is little experience in Iceland regarding how these new construction methods will stand up to a major storm. During an eight-week period from mid December 2007 to mid February 2008 there were claims resulting from four different storms that cost the company significant sums of money. All these storms had a common factor: individually, they did not cause much damage as the average wind speed, and wind gusts, did not reach the point where most damage occurs, which is an average wind speed of over 32-34 m/second, and wind gusts of over 40-45m/second. Such conditions place considerable stress on all structures, personal property and cars that are outdoors. Other factors can exacerbate the situation, for example if there is also a spring tide or considerable snow, which could trigger a sudden thaw that causes significant damage to residences and other structures.

Earthquake in South Iceland

The largest insurance event of the year is without a doubt the earthquake that shook South Iceland on 29 May 2008. Claims due to the quake are paid out by the Icelandic Catastrophe Fund, which requested that VÍS and other insurance companies undertake the task of recording the damages that their customers had suffered, and assess claims on furnishings and household goods.

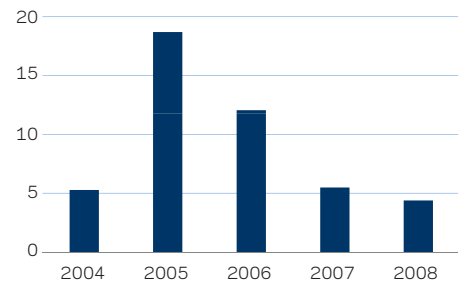
Employees of VÍS systematically assessed claims for the company's 1200 or so customers that had reported damage to household goods and personal property, and about 1400 who had reported claims on homes insured by VÍS.

According to law, Icelandic Catastrophe Fund premiums are included in the premium that policyholders pay for with their property-fire, furnishings and household goods insurance. This premium goes to the Icelandic Catastrophe Fund to pay for claims caused by natural disasters such as earthquakes.

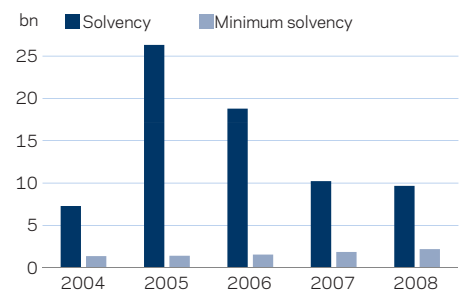
Preventative measures

Major changes in emphasis were introduced in the company's preventative activities in conjunction with VÍS's new preventative strategy and

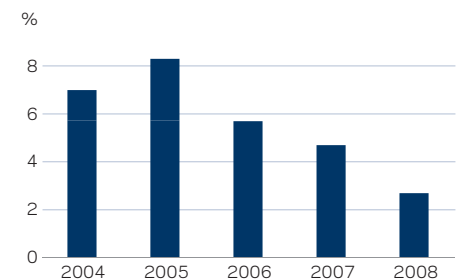
Solvency ratio



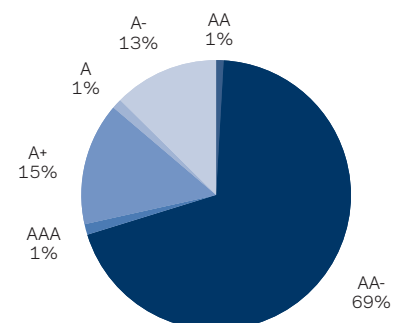
Solvency and minimum solvency



Reinsurance cost ratio



Reinsurer's rating 2008



organisational structure. The main objective of these changes is to achieve the mutual goals of VÍS and policyholders of reducing accidents.

Preventative measures in the personal sector were along established lines. Over 140 driver safety meetings were held both in higher secondary schools and in the company's facilities. The first safety course of its kind for horsemen was held in cooperation with the Agricultural University of Iceland and the Icelandic Horse-Clubs Federation. VÍS published a comprehensive booklet about safety in horsemanship that was distributed at horse rentals, riding schools, livery stables, stores, etc. VÍS's national campaign against road accidents, "Give yourself time," was launched in May. Educational meetings about fire prevention and exiting buildings were held for staff at preschools, and prevention meetings were held for senior citizens and various organisations.

VÍS's accident prevention and safety spokesperson in the personal sector was appointed to the Traffic Safety Council in accordance with a nomination from the Icelandic Financial Services Association.

Product development

In connection with structural changes during the year, increased emphasis was placed on product development, an area in which VÍS intends to be a market leader in the insurance sector. During the year, significant changes were made in third party liability insurance whereby product liability became a distinct insurance product, thereby bolstering the Claims Division and improving insurance risk assessment. Group accident insurance was also introduced in the year, and product development in professional liability insurance is in progress.

Special disability insurance resulting from accidents was introduced in May. The insurance was conceived based on the needs of farmers who want to insure themselves against serious accidents. The insurance is different from general accident insurance in that disability payments increase progressively in accordance with the degree of disability.

International business

VÍS continued its move into the international arena during the year, adding new projects in new markets. Company strategy is to participate in international projects without operating offices outside Iceland. Instead, it focuses on developing strong connections with well-established cooperative partners in the respective countries. During the year, the company insured risks in Britain, Norway, Sweden, Denmark, France and Italy. As before, the largest part of international premiums derives from marine insurance, although accident insurance is a growing segment. Last November, the company concluded a contract with a direct insurance company in Norway regarding participation by VÍS in their reinsurance. That company is one of the largest and most respected specialised marine insurance companies in the world. The contract is the largest individual contract that VÍS has negotiated with a foreign company.

Total premiums entered relating to international business in 2008 was almost ISK 773 million, while premiums earned were ISK 389 million. Operating profit for this segment was good.

Competition

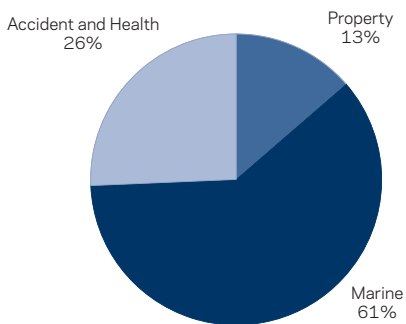
Competition on the domestic insurance market is hard, reflected in part by premiums, product development and diversified services. In this environment, VÍS has placed emphasis on offering a full range of insurance options to fulfil customers' ever-changing insurance needs.

VÍS believes that its F Plús insurance is the best-quality available on the market. F Plús3 is the most popular family insurance, and F Plús4 provides the most extensive insurance. It is the policy of VÍS to maintain its position within Iceland's family insurance segment.

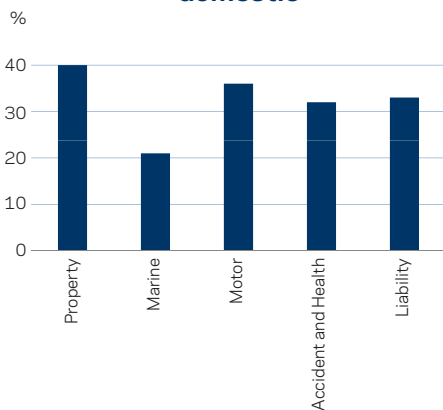
Dynamic service net

VÍS is proud of its dynamic service net. The company has branch offices located at 42 sites around the country. VÍS places considerable emphasis

Foreign business, premiums earned by branches



VÍS 's market share in 2008, domestic



on providing best-quality, efficient services and making decisions that are based on knowledge of the local community. During the year, the company's call centre in Akureyri was further strengthened with two new employees. Half of VÍS's call centres are now located in Akureyri.

Contract with the Farmer's Association of Iceland

The year saw a renewal of the framework agreement between VÍS and the Farmer's Association of Iceland concerning broad-based insurance protection for farmers. According to the agreement, farmers have the option of selecting insurance that is tailor-made to fit individual needs. The insurance agent for farmers at VÍS regularly contacts policyholders to discuss insurance in relation to changes in farm size, new buildings, quotas or other factors that could influence their insurance requirements.

Participation in exhibitions

The Icelandic Fisheries Exhibition was held in Kópavogur in early October, and VÍS was there with an impressive stand among about 500 other companies from 33 countries. Many people visited at the VÍS stand, several business agreements were concluded and contacts with business associates and customers were reinforced. VÍS was awarded a prize for the best exhibition stand in the under-50-m² category.

To help celebrate the centennial anniversary of the Farmer's Association of South Iceland, VÍS participated in a large and very interesting agricultural exhibition at Gaddstaðaflatir in Hella last August. The show was one of the largest of its kind that has been held in Iceland for many years.

VÍS also took part in the agricultural show "Sveitasæla í Skagafirði" in the same month. It was the fourth time it was held in the riding hall at Svaðastaðir in Sauðárkrókur. The show's theme was horses and horsemanship.

A municipalities' financial convention was held in November. VÍS was present with a stand where company employees presented and discussed insurance options and services that were available for municipalities in Iceland.

VÍS strong supporter of horse sports

VÍS is one of the main sponsors of the Icelandic Horse-Clubs Federation and the Iceland Horse Festival that was held in magnificent style in Hella during the year. About 1200 of Iceland's best riding horses made an appearance, along with about 500 riders of all ages. A comfortable VÍS branch office set up on the competition grounds was constantly busy welcoming guests interested in learning about the company's animal protection policies, many of whom purchased insurance for their animals.

For the third successive year, VÍS was the main sponsor of the VÍS Masters Division in Horse Sports, where the competitors are among the best sports horsemen in the country. The Masters Division is a series of 7 competitions held every two weeks. This year was grander than ever, and the State TV station broadcast a programme of highlights after each competition.

VÍS sponsors the Handball Association of Iceland and the Football Association of Iceland.

The year 2008 was a good one for Icelandic team sports: the men's handball team won silver at the Olympics, and for the first time the women's national football team plays in the final in a European championship. VÍS is one of the main sponsors of the Football Association, and has been a sponsor of Iceland's national football team for many years. Moreover, VÍS is one of the main sponsors of the Handball Association of Iceland.

Community projects

On the 100th anniversary of the birth of poet Stein Steinarr, VÍS sponsored the project *Ferð án fyrirheits*, the name of which was taken from one of his poetry books. To mark the occasion, concerts were held around the country, and VÍS invited selected customers to the performances.

In November, VÍS signed a cooperative contract with theatre company Leikfélag Akureyrar, whereby VÍS became the patron for the production of the *Falið fylgi*.

VÍS was also one of the sponsors of the Eco-Driving campaign launched by the Icelandic Environmental Union at the start of Transportation Week in September. Five driving simulators were imported and used to teach eco-driving. Young people who attend VÍS's prevention courses have the opportunity of training in these simulators. It is in the interest of both VÍS and its customers to adopt eco-driving, since these techniques include lower speeds that reduce the danger of accidents, as well as lower fuel costs.

Child car seats from VÍS

For about 15 years, VÍS has offered safe, high-quality child car seats that have been very popular among its customers and others. A great number of these seats were being leased during the year, as their popularity continues unabated.

VÍS values: Concern, dependability and initiative

VÍS is a quality service company where concern, dependability and initiative guide its operational course. The values that VÍS holds are meant to exemplify the company, employees and services, and the company does its utmost to ensure that employees keep mindful of them during all activities involving VÍS. These three values reflect a commitment to the company's customers as well as to the community.

Human resource strategy and the environment

The number of employees at year-end was 229, while the average number of full-time equivalent units in 2008 was 210. During the year organisational changes were implemented, which involved 7 employees from Líffis and Exista being transferred to VÍS.

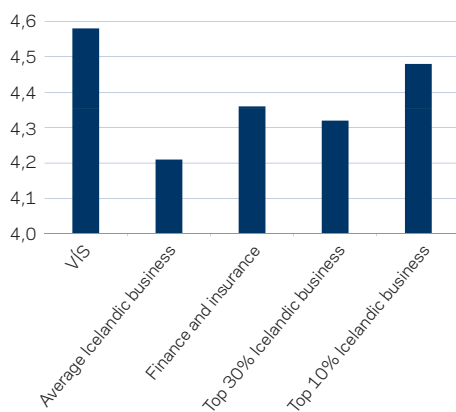
VÍS's strategy is to employ a well-educated staff with good experience and knowledge of insurance. Employees of VÍS possess broad-based experience in their fields of operation. Average length of service is 10 years.

The average age of employees is 45 years, and the genders are almost equally represented: 119 men and 110 women work for the company. One-third of employees are university educated. The company has implemented an egalitarian policy, and in recent years, management has followed an equality plan in operations. VÍS's egalitarian policy states that each individual is evaluated on merit according to competence and performance. The equality plan is intended to demonstrate that equality is ensured among employees, and that gender-based discrimination will be eliminated, if it exists. VÍS believes that this course of action ensures that the company utilises the talents and capabilities of all employees in the best possible manner. In 2008, the number of women in managerial positions increased significantly. For the first time in the company's history, the gender ratio in the management board is equal. The year proved to be a flourishing one for educational activities. In-house education and training was planned for the winter with primary emphasis on practical issues relating to insurance and claims that employees deal with on a daily basis. Eight employees were enrolled in studies at the Insurance School operated by Reykjavík University. The VÍS Educational Fund was created in 2004, and about half of employees have taken advantage of this opportunity for continuing education. Moreover, many have made contracts for grants involving longer study on a university level. In 2008, there were 12 employees studying at university while continuing to work.

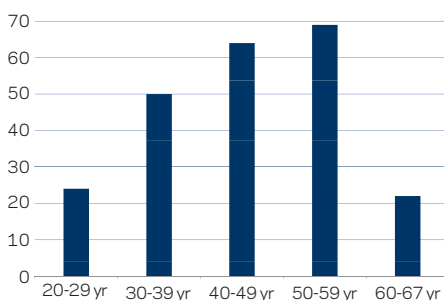
Those employees of VÍS who worked at the company when it was established, took a 10-week Dale Carnegie course last fall at company expense. This proved to be much appreciated, and close to 30 employees graduated from this demanding programme.

The impact of the banking collapse is felt by employees and their families who now live in great uncertainty about their future. It was not necessary for VÍS to resort to lay-offs, but there is general insecurity concerning the financial situation of families and society. Since October, VÍS has worked on an action plan in order to best ensure the well-being and security of employees and their families. As part of this plan the company has negotiated a contract with a psychology centre whereby all employees are welcome to seek help with their problems, whether work related or not, and VÍS takes care of payment.

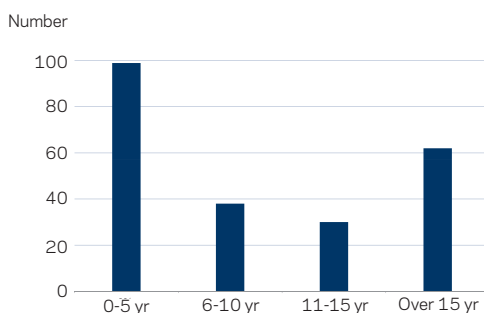
Job satisfaction



Age distribution



Employment period



Financial Statements 2008

Endorsement by the Board of Directors and CEO

The Financial Statements for the year ended 31 December 2008, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Profit for the year, according to the Income Statement, amounted to ISK 242 million. According to the Balance Sheet total assets amounted to ISK 31.979 million and total equity amounted to ISK 9.678 million at the end of the year.

At year end the number of shareholders were 2. At the beginning of the year there were also 2 shareholders. At year end one shareholder holds more than 10% of the shares, Exista hf. with 99,99% of the shares.

The objective of risk management is to ensure the safety of the company's assets. The company has approved an investment strategy with an objective to ensure rate of return and safety of assets. The Board of Directors approves the investment strategy on a regular basis.

The Board of Directors recommend that no dividend will be paid to shareholders in the year 2009, but otherwise refers to the Financial Statements regarding changes in the Company's equity and disposal of profits.

The Board of Directors and the CEO of Vátryggingafélag Íslands hf. are of the opinion that the Financial Statements for the year 2008 contain all the information necessary to form a clear picture of the Company's standing at year end, the year's operating results and the year's financial development.

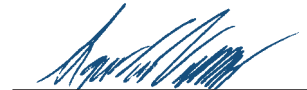
The Board of Directors and the CEO of Vátryggingafélag Íslands hf. hereby confirm the Financial Statements for the year 2008 with their signature.

Reykjavík 15 April 2009

Board of Directors



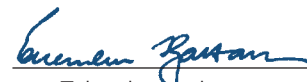
Lydur Gudmundsson
Chairman



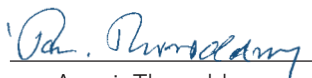
Sigurdur Valtýsson



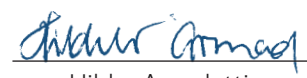
Sveinn Thor Stefánsson



Erlendur Hjaltason

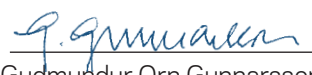


Asgeir Thoroddsen



Hildur Arnadóttir

CEO



Gudmundur Orn Gunnarsson

Independent Auditor's Report

To the Board of Directors and shareholders of Vátryggingafélag Íslands hf.

We have audited the accompanying financial statements of Vátryggingafélag Íslands hf., which comprise the balance sheet as at December 31, 2008, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in Iceland. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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


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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Vátryggingafélag Íslands hf. as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles in Iceland applied on a consistent basis.

Deloitte hf.

Kopavogi 15 April 2009



Hilmar A. Alfredsson
Certified Public Accountant

Income Statement for the year 2008

	Notes	2008	2007
Income and expenses from insurance operations			
Premiums earned		12.367.239	10.831.442
Premiums earned, reinsurers' share		(519.956)	(730.918)
Premiums earned, net of reinsurance	5	<u>11.847.283</u>	<u>10.100.524</u>
Other income from insurance operations		182.182	32.074
Investment income from insurance operations		<u>2.028.760</u>	<u>1.743.908</u>
Income from insurance operations total		14.058.225	11.876.506
Claims			
Claims incurred		(10.940.582)	(8.744.643)
Claims incurred, reinsurers' share		<u>169.627</u>	<u>174.556</u>
Claims incurred, net of reinsurance	6	(10.770.955)	(8.570.087)
Marketing and administration expenses		(2.463.221)	(2.079.637)
Commission and net gains from reinsurers		<u>11.758</u>	<u>46.019</u>
Expense from insurance operations total		(13.222.418)	(10.603.706)
Profit from insurance operations		<u>835.807</u>	<u>1.272.800</u>
Income and expenses from investments			
Share of profits of subsidiaries and associates		0	618.560
Investment income	8	6.109.125	2.666.390
Net gain on investments at fair value		(2.489.735)	4.538.927
Administration expenses		(243.256)	(210.451)
Allowances for doubtful financial assets		(1.811.640)	0
Investment expenses	9	<u>(3.876)</u>	<u>(30.362)</u>
Investment income total		1.560.618	7.583.064
Transferred investment income to insurance operations		<u>(2.028.760)</u>	<u>(1.743.908)</u>
(Loss) profit from investment operations		<u>(468.142)</u>	<u>5.839.156</u>
Profit before taxes		367.665	7.111.957
Income tax expense	10	<u>(125.701)</u>	<u>3.881.118</u>
Profit for the year		<u>241.964</u>	<u>10.993.075</u>
Earnings per share	11	0,16	16,85

Amounts in ISK 000

Balance Sheet at 31 December 2008

	Notes	31.12.2008	31.12.2007
Assets			
Property, plant and equipment	13	361.186	281.344
Financial assets measured at fair value	14	14.254.112	18.274.579
Secured loans and other loans	14	3.838.054	6.775.704
Deferred tax asset	21	222.724	0
Accounts receivables	15	3.467.284	3.391.813
Reinsurance assets	16	683.917	818.964
Other receivables		253.664	47.949
Cash and cash equivalents	17	8.898.024	1.659.562
Total assets		<u>31.978.964</u>	<u>31.249.916</u>
Equity			
Share capital	18	2.502.481	1.502.481
Capital reserves		387.718	375.620
Retained earnings		6.787.780	8.357.583
Total equity		<u>9.677.978</u>	<u>10.235.683</u>
Liabilities			
Technical provision	20	20.719.759	19.628.947
Deferred tax liabilities		0	329.272
Accounts payable	22	419.334	409.994
Other liabilities	22	1.161.892	646.020
Total liabilities		<u>22.300.986</u>	<u>21.014.232</u>
Total equity and liabilities		<u>31.978.964</u>	<u>31.249.916</u>

Statement of Changes in Equity for the year 2008

	Share capital	Capital reserves	Retained earnings	Total
Equity 1.1.2007	382.481	3.326.229	16.589.401	20.298.111
New share capital	1.120.000	10.080.000		11.200.000
Demerger of the company		(13.030.609)	(17.724.893)	(30.755.503)
Dividends, paid			(1.500.000)	(1.500.000)
Profit for the year			10.993.075	10.993.075
Equity 1.1.2008	1.502.481	375.620	8.357.582	10.235.683
New share capital	1.000.000			1.000.000
Dividends, paid			(1.799.669)	(1.799.669)
Profit for the year			241.964	241.964
Statutory reserve		12.098	(12.098)	0
Equity 31.12.2008	2.502.481	387.718	6.787.779	9.677.978

Statement of Cash Flow for the year 2008

	Notes	2008	2007
Operating activities			
Profit for the year		241.964	10.993.075
Share of profits of associates		0	(618.560)
Fair value of financial assets and liabilities, changes		319.051	(5.189.647)
Net earnings from sales of investment		(419)	(132.892)
Depreciation and impairment of assets		35.601	28.283
Obligations, changes		(551.995)	(4.014.737)
Technical provision net of reinsurance, changes		1.186.659	1.334.518
Other items, changes		(18.524)	(3.040)
		<u>1.212.337</u>	<u>2.396.998</u>
Receivables, changes		(74.571)	(728.045)
Other assets, changes		(205.715)	99.109
Borrowings, changes		0	(897.083)
Other liabilities, changes		582.036	(322.209)
Net cash provided by operating activities		<u>1.514.088</u>	<u>548.771</u>
Investing activities			
Investment in financial assets		4.466.840	(5.244.802)
Investment in other securities		2.172.646	(4.830.952)
Property and equipment	13	(115.443)	152.527
		<u>6.524.043</u>	<u>(9.923.227)</u>
Financing activities			
Dividend paid		(1.799.669)	(1.500.000)
Proceeds from issues of equity shares		1.000.000	11.200.000
		<u>(799.669)</u>	<u>9.700.000</u>
Increase (decrease) in cash and cash equivalents		7.238.461	325.544
Cash and cash equivalents at beginning of the year		1.659.562	1.334.018
Cash and cash equivalents at year-end		<u>8.898.024</u>	<u>1.659.562</u>

Notes to the financial statements

1. General information

Vátryggingafélag Íslands hf. (the Company) is a limited company and operates subject to law no. 60/1994 concerning insurance operations and law no. 2/1995 concerning limited companies.

Vátryggingafélag Íslands hf. operates in the field of insurance and finance.

2. New and revised Standards

The financial statements are presented in accordance with the new and revised standards (IFRS/IAS) and new interpretations (IFRIC), applicable in the year 2008. These standards and interpretations are:

IAS 39 (revised) - Financial Instruments: Recognition and Measurement
 IFRIC 11, IFRS 2 - Group and treasury share transactions
 IFRIC 12 - Service concession arrangements
 IFRIC 14 - IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction.

The adoption of the new and revised standard and interpretations has not led to changes in the accounting policies.

Following is an overview of new or revised standards and interpretations that are not yet effective:

Following is an overview of new or revised standards and interpretations that are not yet effective:

IFRS 2 (revised 2008) - Share-based Payment (effective for accounting periods beginning on or after 1 January 2009);
 IFRS 3 (revised 2008) - Business Combinations (effective for accounting periods beginning on or after 1 July 2009);
 IFRS 8 - Operating Segments (effective for accounting periods beginning on or after 1 January 2009);

IAS 39 (revised 2008) - Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2009);

Minor changes to various standards as a result of the IASB's annual improvement process (2008). Most changes take effect for periods beginning 1 January 2009 or later.

IFRIC 13 - Customer Loyalty Programs (effective for accounting periods beginning on or after 1 July 2008);

IFRIC 15 - Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009);

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008);

IFRIC 17 - Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009);

Revised IAS 1 will have the impact that all items of income and expense (including those recognised outside of profit or loss) must be presented either in a single statement as a statement of comprehensive income; or in two statements as a separate income statement and a statement of comprehensive income.

Revised IAS 23 eliminates the previously available option to expense all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs shall be expensed.

Revised IFRS 3 states that all acquisition-related costs are to be recognised as period expenses. Implementation may also result in a change in accounting for the recognition of goodwill related to the minority share of the acquired companies, step acquisitions and partial disposal of shares in subsidiaries.

It is the management's assessment that in general, the adoption of those new and revised standards and interpretations will have no material impact on the financial statements, except for the additional disclosure requirements for operating segments according to IFRS 8. IFRS 8 is the only one of the above new or revised standards and interpretations that has been approved by the EU.

3. Significant accounting policies

Statement of compliance

The Financial Statements for the year 2008 have been prepared in accordance with International Financial Standards (IFRS) as adopted by the EU.

Basis of Preparation

The financial statements are prepared on the historical cost basis except that financial instruments are stated at their fair value. The financial statements are presented in Icelandic Krona (ISK), rounded to nearest thousand.

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The principal accounting policies adopted are set out below.

Income and expenses from insurance operations

Premiums

Premiums entered as income comprise the premiums contracted during the fiscal year including premiums transferred from last year but excluding next years premiums, which are entered as unearned premiums. Unearned premiums in the Balance Sheet forms the part of premiums due to insurance risk during the period which belongs to unexpired insurance policies at year end.

Claims

Claims stated in the Income Statement are the claims incurred in the year including increases or decreases due to development of claims from previous fiscal years. Claims reserved in the Balance Sheet are the total amount of reported outstanding claims as well as provision for claims incurred but not reported.

Insurance contracts

The Company issues contracts that transfer both financial and insurance risk from the customer to the Company.

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 occur.

The insured event is uncertain, it is not known if it occurs or when and in general the financial consequences are not known in beforehand

Non-life insurance - classification

Non-life insurance contracts are classified as general third party liability contracts, personal accidents contracts, property insurance contracts and marine insurance contracts.

Third party liability contracts protect the costumer against the risk of causing harm to third parties as a result of their legitimate activities.

Personal accident insurance contracts compensates the insured own bodily injuries in 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.

Technical provisions

The company assesses, at the end of the fiscal year, whether the recorded insurance liability can carry out the Company's estimated obligations by assessing future cash flows of the insurance liability. All changes in the insurance liability are recognized in the Income Statement. In performing these assessments statistical methods are used to estimate future cash flows related to the claims.

Reinsurance contracts

Reinsurance contracts are made in order to reduce the Company'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 reinsurers due to premiums and claims are recognized as reinsurance assets. The claims concern the reinsurers share in losses according to reinsured insurance contracts and share in unearned premiums. Obligations due to reinsurance are the reinsurers' share in premiums for reinsurance contracts which are recognized in the Income Statement at the time of the renewal of the reinsurance contracts.

Foreign currency

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Exchange differences are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised in the period they incur. Borrowing cost are capitalized and depreciated during the loan period.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Property and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured in a reliable manner. Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost. The cost of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lifetime of each part of an item of property and equipment considering salvage value. Estimated useful lifetime is as follow:

Property	33 years
Motorvehicle	7 years
Equipment	3 - 4 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Securities

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity are valued at cost, less an allowance for estimated irrecoverable amounts.

Investment held for trading are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period.

Impairment of assets other than Goodwill

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 specified to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses on cash generating units reduces first goodwill, and after that to reduce other assets. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment loss on goodwill is not reserved.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date.

Accounts receivable

Accounts receivable are entered at cost considering exchange rate difference less impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Accounts payable

Accounts payable are stated at cost considering exchange rate difference.

4. Segment reporting

The following are the Company's segments of operation: Insurance operation and Financial operation.

Results of operations of segments for 2008 is as following:

	<u>Insurance operation</u>	<u>Financial operation</u>	<u>Total</u>
Premiums earned	12.367.239		12.367.239
Reinsurers' share	(519.956)		(519.956)
Other income	182.182		182.182
Investment income	2.028.760	1.590.630	3.619.390
Total income	<u>14.058.225</u>	<u>1.590.630</u>	<u>15.648.855</u>
Claims incurred	(10.940.582)		(10.940.582)
Claims incurred, reinsurers' share	169.627		169.627
Operating expenses	(2.451.463)	(243.256)	(2.694.719)
Investment expenses		(3.876)	(3.876)
Allowance for doubtful financial assets		(1.811.640)	(1.811.640)
Operating profit of Segment	<u>835.807</u>	<u>(468.142)</u>	<u>367.665</u>
Income tax			(125.701)
Net earnings for the year			<u>241.964</u>

Depreciation in the insurance segment amounted to 33.3 million during 2008. Depreciation in the financial segment amounted to 2.3 million. Investments in the insurance segment amounted to 130 million during 2008.

Assets and liabilities of Segments December 31, 2008 is as following:

	<u>Insurance operation</u>	<u>Financial operation</u>	<u>Total</u>
Assets			
Loans and other investments	16.347.669	1.744.497	18.092.166
Reinsurance assets	683.917		683.917
Other assets	9.892.564	3.310.317	13.202.881
Segments' assets	<u>26.924.150</u>	<u>5.054.814</u>	<u>31.978.964</u>
Liabilities			
Technical provisions	20.719.759		20.719.759
Other liabilities	1.581.227		1.581.227
Segments' liabilities	<u>22.300.986</u>	<u>0</u>	<u>22.300.986</u>

Results of operations of segments for 2007 is as following:

	<u>Insurance operation</u>	<u>Financial operation</u>	<u>Total</u>
Premiums earned	10.831.442		10.831.442
Reinsurers' share	(730.918)		(730.918)
Other income	32.074		32.074
Investment income	1.743.908	6.079.969	7.823.877
Total income	<u>11.876.506</u>	<u>6.079.969</u>	<u>17.956.475</u>
Claims incurred	(8.744.643)		(8.744.643)
Claims incurred, reinsurers' share	174.556		174.556
Operating expenses	(2.033.619)	(210.451)	(2.244.070)
Investment expenses	0	(30.362)	(30.361)
Operating profit of Segment	<u>1.272.800</u>	<u>5.839.156</u>	<u>7.111.957</u>
Income tax			3.881.118
Net earnings for the year			<u>10.993.075</u>

Depreciation in the insurance segment amounted to 22.3 million during 2007. Depreciation in the financial segment amounted to 2.3 million. Investment in the insurance segment amounted to 44 million during 2008.

Assets and liabilities of Segments December 31, 2007 is as following:

	<u>Insurance operation</u>	<u>Financial operation</u>	<u>Total</u>
Assets			
Loans and other investments	18.285.761	6.764.522	25.050.283
Reinsurance assets	818.964		818.964
Other assets	5.380.669		5.380.669
Segments' assets	<u>24.485.394</u>	<u>6.764.522</u>	<u>31.249.916</u>
Liabilities			
Technical provisions	19.628.747		19.628.747
Other liabilities	1.056.013	329.272	1.385.285
Segments' liabilities	<u>20.684.760</u>	<u>329.272</u>	<u>21.014.032</u>

Summary of insurance classes 2008:

	<u>Property insurance</u>	<u>Marine insurance</u>	<u>Mandatory motor insurance</u>	<u>Other motor insurance</u>	<u>General liability insurance</u>
Premiums earned ...	3.062.101	454.533	4.623.879	1.993.966	716.569
Claims incurred	(2.813.773)	(271.584)	(3.419.227)	(1.993.139)	(847.997)
Operating expenses	(666.693)	(86.409)	(878.997)	(391.647)	(119.835)
Reinsurance cost, net	(186.777)	(69.934)	(79.444)	(1.461)	(59.799)
Investment income	202.540	28.490	1.170.290	131.950	204.700
Other income	136.248	298	25.681	12.259	2.329
Profit(loss)from insur.	<u>(266.354)</u>	<u>55.394</u>	<u>1.442.182</u>	<u>(248.072)</u>	<u>(104.033)</u>
	<u>Accident and Health insurance</u>	<u>Total direct insurance</u>	<u>Total reinsurance</u>	<u>Total</u>	
Premiums earned	1.334.560	12.185.608	181.632	12.367.240	
Claims incurred	(1.520.546)	(10.866.266)	(74.317)	(10.940.583)	
Operating expenses	(290.955)	(2.434.536)	(28.686)	(2.463.222)	
Reinsurance cost, net	62.401	(335.014)	(3.556)	(338.570)	
Investment income	259.680	1.997.650	31.110	2.028.760	
Other income	5.367	182.182		182.182	
Profit (loss) from insurance	<u>(149.493)</u>	<u>729.624</u>	<u>106.183</u>	<u>835.807</u>	

Summary of insurance classes 2007:

	<u>Property insurance</u>	<u>Marine insurance</u>	<u>Mandatory motor insurance</u>	<u>Other motor insurance</u>	<u>General liability insurance</u>
Premiums earned	2.726.839	436.202	4.078.490	1.628.174	770.897
Claims incurred ...	(2.614.154)	(277.180)	(3.002.179)	(1.608.159)	(543.883)
Operating expenses	(556.672)	(72.242)	(795.171)	(322.656)	(115.629)
Reinsurance cost, net	(160.251)	(93.950)	(22.922)	(870)	(168.899)
Investment income	133.745	21.699	1.094.011	97.540	169.171
Other income	32.660	799	4.385	626	(1.218)
Profit(loss)from insur.	<u>(437.833)</u>	<u>15.328</u>	<u>1.356.614</u>	<u>(205.345)</u>	<u>110.439</u>

	<u>Accident and Health insurance</u>	<u>Total direct insurance</u>	<u>Total reinsurance</u>	<u>Total</u>
Premiums earned	1.065.458	10.706.060	125.382	10.831.442
Claims incurred	(649.929)	(8.695.484)	(49.159)	(8.744.643)
Operating expenses	(208.438)	(2.070.808)	(8.829)	(2.079.637)
Reinsurance cost, net	(223)	(447.115)	(63.228)	(510.343)
Investment income	218.419	1.734.585	9.322	1.743.907
Other income	(5.178)	32.074		32.074
Profit (loss) from insurance	<u>420.109</u>	<u>1.259.312</u>	<u>13.488</u>	<u>1.272.800</u>

5. Premiums earned

	<u>2008</u>	<u>2007</u>
Premiums written	13.146.189	11.503.792
Premiums written, reinsurers' share	(486.994)	(406.694)
Change in unearned premiums	(778.950)	(672.350)
Change in unearned premiums, reinsurers' share	(32.962)	(324.224)
	<u>11.847.283</u>	<u>10.100.524</u>

6. Claims incurred

	<u>2008</u>	<u>2007</u>
Claims paid	(10.628.720)	(8.489.635)
Claims paid, reinsurers' share	270.812	231.292
Change in claims provision	(311.862)	(255.008)
Change in claims provision, reinsurers' share	(101.185)	(56.736)
	<u>(10.770.955)</u>	<u>(8.570.087)</u>

7. Salaries and related expenses

	<u>2008</u>	<u>2007</u>
Salaries	1.131.043	955.450
Salaries related expenses	189.965	163.734
	<u>1.321.008</u>	<u>1.119.184</u>

Average number of full time equivalent employees 210 202

Salaries and benefits to the CEO, Board of Directors and Executives in the year 2008 is ISK 87 million.

8. Investment income

	<u>2008</u>	<u>2007</u>
Interest income from deposits	508.971	172.514
Interest income from bonds	4.402.735	1.006.943
Dividends from shares	117.887	928.820
Exchange rate difference	525.813	235.832
Other interest income	553.719	322.281
	<u>6.109.125</u>	<u>2.666.390</u>

9. Investment expenses

	<u>2008</u>	<u>2007</u>
Interest expenses on short term liabilities	(3.876)	(1.208)
Interest expenses on borrowings	0	(29.155)
	<u>(3.876)</u>	<u>(30.362)</u>

10. Income tax

Income tax is recognised in the income statement and the charged amount is ISK 126 million. No income tax is payable in 2009 for 2008 activities because of joint taxation with Exista hf.

Legislation changing tax rates from 18% to 15% was confirmed in May 2008 and is effective from January 1st 2008. The effect of lowering the tax rate on deferred tax liability at the beginning of the year is 55 million and the change is charged to the income statement.

Other changes were made on tax laws that allow reduction in taxable income equal to the profit on sale of stocks and registered derivatives on stocks. Reduction is only allowed if tax loss for previous years and the current year have been equalized. The change is valid for income for the year 2008 or later. The effect upon the accounting of the Company is that stock ownership and listed derivative agreements on stocks no longer affect tax liabilities on the balance sheet. Due to that the tax liability of the Company has decreased by 271 million at January 1 2008.

The total charge for the year can be reconciled to the accounting profit as follows:

	<u>2008</u>		<u>2007</u>	
	Amount	%	Amount	%
Profit before taxes	367.665		7.111.957	
Tax rate	55.150	15,0%	1.280.152	18,0%
Change in tax rate	(54.879)	-14,9%	0	0,0%
Change in tax liability due to stocks	(226.151)	-61,5%	0	0,0%
Dividend, gained	(17.683)	-4,8%	(167.188)	-2,4%
Change in fair value of financial assets.....	373.523	101,6%	0	0,0%
Share of profits of associates	0	0,0%	(111.341)	-1,6%
Reverse of tax effects previous years fair value changes of financial assets	0	0,0%	(4.758.788)	-66,9%
Other items	(4.259)	-1,2%	(123.954)	-1,7%
Income tax according to the Income Statement.....	<u>125.701</u>	34,2%	<u>(3.881.118)</u>	-54,6%

11. Earnings per share

Earnings per share is calculated as following:

	<u>2008</u>	<u>2007</u>
Net earnings	241.964	10.993.075
Average number of shares during the year	1.524.398	652.508
Earnings per share	0,16	16,85

No convertible bonds were issued and no share-based payments to employees were in the year 2008. Therefore diluted earnings per share is the same as earnings per share.

12. Dividend

The Dividends paid in 2008 were ISK 1.799.669. The Dividend paid in 2007 were ISK 1.500.000.

13. Property, equipment and depreciation

	Property and land	Furniture, equipm. and motorvehicle	Total
Cost of assets			
Total value 1.1.2008	141.093	270.105	411.199
Capitalised in 2008	0	130.086	130.086
Sold in 2008	(18.728)	(36.983)	(55.711)
Total value 31.12.2008	<u>122.365</u>	<u>363.208</u>	<u>485.573</u>
Depreciation			
Previously depreciated	78.338	51.517	129.855
Depreciated in 2008	2.337	33.264	35.601
Sold in 2008	(4.303)	(36.765)	(41.068)
Total depreciation 31.12.2008	<u>76.372</u>	<u>48.016</u>	<u>124.388</u>
Book value			
Book value 1.1.2008	62.756	218.588	281.344
Book value 31.12.2008	<u>45.993</u>	<u>315.193</u>	<u>361.186</u>
Depreciation ratio	3-4%	10-33%	

Real estate and insurance valuation 31.12.2008 specifies as following:

	Real estate valuation	Fire insurance valuation
Property and land	<u>74.069</u>	<u>168.022</u>

14. Financial assets

	31.12.2008	31.12.2007
Financial assets measured at fair value		
Shares in other companies	712.731	7.669.305
Other financial assets	<u>13.541.381</u>	<u>10.605.274</u>
	14.254.112	18.274.579
Secured loans and other loans		
Securities	3.838.054	6.775.704
	<u>3.838.054</u>	<u>6.775.704</u>
Total financial assets	<u>18.092.166</u>	<u>25.050.283</u>
	<u>31.12.2008</u>	<u>31.12.2007</u>
Financial assets measured at fair value		
Listed on the Icelandic stock exchange	23.385	3.347.752
Listed in foreign stock exchanges	312.078	3.944.447
Other companies	<u>377.269</u>	<u>377.106</u>
	712.731	7.669.305
Other financial assets		
Listed securities	12.638.093	9.333.382
Unlisted securities	<u>903.288</u>	<u>1.271.892</u>
	13.541.381	10.605.274
Secured loans and other loans		
Mortgage loans	407.012	4.984.730
Secured loans	255.455	495.145
Other loans	<u>3.175.587</u>	<u>1.295.830</u>
	3.838.054	6.775.704
Total financial assets	<u>18.092.166</u>	<u>25.050.283</u>

Reserves for financial assets

	<u>31.12.2008</u>	<u>31.12.2007</u>
Balance at the beginning of the year	87.343	107.004
Allowance for doubtful financial assets and other long term assets.....	1.809.068	25.307
Bankrupt and uncollectable	(23.206)	(44.968)
Balance at the end of the year	<u>1.873.206</u>	<u>87.343</u>

15. Accounts receivable

	<u>31.12.2008</u>	<u>31.12.2007</u>
Debtors arising out of reinsurance operations	3.146.219	2.599.875
Other account receivables	321.066	791.938
	<u>3.467.284</u>	<u>3.391.813</u>

Reserves for bad debt

	<u>31.12.2008</u>	<u>31.12.2007</u>
Balance at the beginning of the year	180.712	224.621
Allowance for doubtful debt.....	84.856	5.466
Bankrupt and uncollectable	(32.006)	(49.375)
Balance at the end of the year	<u>233.562</u>	<u>180.712</u>

16. Reinsurance assets

	<u>31.12.2008</u>	<u>31.12.2007</u>
Reinsurers' share in unearned premiums	95.714	128.676
Reinsurers' share in claims provision	579.229	680.414
Debtors arising out of reinsurance operations	8.974	9.874
	<u>683.917</u>	<u>818.964</u>

17. Cash and cash equivalent

Cash and cash equivalent specifies as cash at bank in hand and short-term bank deposits.

	<u>31.12.2008</u>	<u>31.12.2007</u>
Cash	7.698	8.549
Bank deposits in Icelandic krona	6.590.395	1.120.742
Bank deposits in foreign currency	2.299.931	530.271
	<u>8.898.024</u>	<u>1.659.562</u>

18. Share Capital

Share Capital specifies as following:

	<u>Shares</u>	<u>Ratio</u>
Authorised Share Capital	2.502.757	100,00%
Own shares	(277)	-0,01%
Share Capital according to annual report	<u>2.502.481</u>	<u>99,99%</u>

Each share of 1 krona carries one vote.

19. Solvency

According the Act on Insurance Activities, the minimum solvency of the Company at the year-end was ISK 2.200 million and calculated solvency ISK 9.678 million. Difference on calculated solvency and book value of equity specifies as follows:

	<u>31.12.2008</u>	<u>31.12.2007</u>
Equity according to Balance Sheet	9.677.978	10.235.683
Dividend paid	0	0
Calculated Solvency	<u>9.677.978</u>	<u>10.235.683</u>
Solvency ratio	4,4	5,5

Amounts in ISK 000

20. Technical provisions

	31.12.2008	31.12.2007
Technical provisions		
Claims reported	13.142.709	12.936.947
Claims incurred but not reported	2.481.100	2.375.000
Claims outstanding	15.623.809	15.311.947
Unearned premiums	5.095.950	4.317.000
Technical provisions total	<u>20.719.759</u>	<u>19.628.947</u>
Reinsurers' share		
Claims reported	518.451	611.296
Claims incurred but not reported	60.778	69.118
Claims outstanding	579.229	680.414
Unearned premiums	95.714	128.676
Reinsurers' share total	<u>674.943</u>	<u>809.090</u>
Technical provisions net of reinsurance		
Claims reported	12.624.258	12.325.651
Claims incurred but not reported	2.420.322	2.305.882
Claims outstanding	15.044.580	14.631.533
Unearned premiums	5.000.236	4.188.324
Technical provision net of reinsurance total.....	<u>20.044.816</u>	<u>18.819.857</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 2008 and 2007 is immaterial.

Movements in technical provisions during the year:

	2008			2007		
	Total	Reinsurers' share	For own account	Total	Reinsurers' share	For own account
Claims outstanding:						
Reported claims	12.936.947	(611.296)	12.325.651	13.103.439	(629.450)	12.473.989
IBNR	<u>2.375.000</u>	<u>(69.118)</u>	<u>2.305.882</u>	<u>1.953.500</u>	<u>(107.700)</u>	<u>1.845.800</u>
Total at beginning of year	15.311.947	(680.414)	14.631.533	15.056.939	(737.150)	14.319.789
Claims paid during the year						
- arising from prior years	(5.204.107)	242.358	(4.961.749)	(4.261.113)	229.753	(4.031.360)
Increase in liabilities:						
- arising from current year	5.891.082	(40.241)	5.850.841	6.291.597	(253.030)	6.038.567
- arising from prior years	<u>(375.113)</u>	<u>(100.932)</u>	<u>(476.045)</u>	<u>(1.775.476)</u>	<u>80.013</u>	<u>(1.695.463)</u>
Total at the end of year ...	<u>15.623.809</u>	<u>(579.229)</u>	<u>15.044.580</u>	<u>15.311.947</u>	<u>(680.414)</u>	<u>14.631.533</u>
	2008			2007		
	Total	Reinsurers' share	For own account	Total	Reinsurers' share	For own account
Reported claims	13.142.709	(518.451)	12.624.258	12.936.947	(611.296)	12.325.651
IBNR	<u>2.481.100</u>	<u>(60.778)</u>	<u>2.420.322</u>	<u>2.375.000</u>	<u>(69.118)</u>	<u>2.305.882</u>
Total at beginning of year	<u>15.623.809</u>	<u>(579.229)</u>	<u>15.044.580</u>	<u>15.311.947</u>	<u>(680.414)</u>	<u>14.631.533</u>
Provision for unearned premiums:						
At beginning of year	4.317.000	(128.676)	4.188.324	3.644.650	(452.900)	3.191.750
the year	<u>778.950</u>	<u>32.962</u>	<u>811.912</u>	<u>672.350</u>	<u>324.224</u>	<u>996.574</u>
Total at the end of the year	<u>5.095.950</u>	<u>(95.714)</u>	<u>5.000.236</u>	<u>4.317.000</u>	<u>(128.676)</u>	<u>4.188.324</u>

Risk related to Non-life insurance, especially accident insurance, depend on many variables which complicate sensitivity analysis. The Company 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 sufficient information is not available an average claim value in respective sectors is used but then later revalued with regards to the information received.

21. Deferred tax assets

	<u>Tax assets</u>
Deferred tax liability at beginning of 2008	329.272
Income tax for the period 2008	125.701
Joint taxation with parent company	<u>(677.696)</u>
Deferred tax assets at year-end	<u>(222.724)</u>

Deferred tax assets is divided between the following Balance Sheet items::

Property and equipment	24.201
Allowance for doubtful financial assets	(188.227)
Other	<u>(58.698)</u>
	<u>(222.724)</u>

22. Accounts payable and other liabilities

Accounts payable

	<u>31.12.2008</u>	<u>31.12.2007</u>
Payables arising out of reinsurance operations	242.625	210.787
Reinsurance, debt	109.713	198.863
Associates, debt	66.996	344
	<u>419.334</u>	<u>409.994</u>

Other liabilities

	<u>31.12.2008</u>	<u>31.12.2007</u>
Duties, unpaid	36.558	34.028
Accounts, unpaid	83.083	72.898
Salaries and related expenses, unpaid	310.143	301.090
Other liabilities	732.108	238.005
	<u>1.161.892</u>	<u>646.020</u>

23. Financial risk management

The Company operates a risk management, focusing on the financial risk attached to the Company's operations. These risk factors are interest rate risk, foreign exchange risk, equity price risk, credit risk, liquidity risk and underwriting risk.

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company has both fixed and floating rate interest bearing assets. Interest bearing assets with fixed rate are accounted for at amortised cost. Changes in interest rates which will effect the assets fair value will therefore not result in a change in the books. The interest rate risk is only attached to interest bearing assets, since the company has no interest bearing borrowings. Interest rate changes effect expected cash flow relating to floating rate assets. The Company hasn't entered into interest rate swaps to reduce the risk relating to changes in interest rates, but the Company is constantly monitoring the interest rate development. In the analysis below the effects of 50 and 100 basis points interest rate increase on income statement and equity are demonstrated.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assume that all other variables, than basis points, are held constant. The sensitivity analysis takes into account tax effects. A positive number below indicates an increase in profit and other equity. A decrease in basis points would have an opposite impact on income statement and equity.

The effects on P/L and equity is the same since change in fair value of financial investments are not under any circumstances through equity account. Positive amount stands for increase in the profit of the year and net assets. Decline in interest would have the same effects but in opposite direction.

Amounts in ISK 000

	31.12 2008		31.12 2007	
	50 bps	100 bps	50 bps	100 bps
Effects on P/L and equity	30.357	60.714	8.153	16.306

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when there is a difference in the balance between assets and liabilities in foreign currency. A dominant part of the Company's assets and liabilities are in ISK the domestic currency, but the Company holds some foreign currency financial assets. The Company has entered into foreign currency derivatives to reduce the foreign exchange risk. The Company does not apply hedge accounting in accordance with IAS 39. Below, the foreign currencies that mainly affect the Company's operations are stated. Rates reflect buying rate, but annual volatility is calculated based on mid rate.

Currency	Closing rate		Average rate		Volatility 2008
	2008	2007	2008	2007	
EUR	169,97	91,88	127,46	87,60	44,9%
GBP	175,40	125,10	159,30	128,10	45,0%
DKK	22,81	12,32	17,09	11,76	44,9%
NOK	17,30	11,53	15,41	10,94	44,6%
SEK	15,56	9,74	13,20	9,47	44,4%
USD	120,87	62,42	88,07	64,00	46,3%

Foreign currency exposure 31.12.2008

	Assets	Liabilities	Net balance
EUR	1.804.752	451.139	1.353.613
GBP	554.196	14.158	540.038
DKK	729.296	3.598	725.698
NOK	41.150	0	41.150
SEK	2.628	110	2.518
USD	2.426.171	533.226	1.892.945

Foreign exchange exposure 31.12.2007

	Assets	Liabilities	Net balance
EUR	1.172.565	599.578	572.987
GBP	1.390.370	439.731	950.639
DKK	67.707	4.235	63.472
NOK	2.102.428	1.029.600	1.072.828
SEK	283.968	1.876	282.092
USD	2.215.781	1.045.327	1.170.454

Sensitivity analysis

The table below shows the effects that 5% and 10% increase of the relevant foreign currency rate against the ISK would have on income statement and equity. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances. The forward contract on the exchange rate index hasn't been included in the analysis. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assume that all other variables, than the relevant foreign currency rate, are held constant. The sensitivity analysis takes into account tax effects. A positive number below indicates an increase in profit and other equity. A decrease of the relevant foreign currency rate against the ISK would have an opposite impact on income statement and equity.

Effects on income statement and equity	31.12.2008		31.12.2007	
	5%	10%	5%	10%
EUR	57.529	115.057	23.492	46.985
GBP	22.952	45.903	38.976	77.952
DKK	30.842	61.684	2.602	5.205
NOK	1.749	3.498	43.986	87.972
SEK	107	214	11.566	23.132
USD	80.450	160.900	47.989	95.977

Equity price risk

The Company holds material balances in equity investments. The Company is therefore exposed to changes in the market price of the equity investments. A significant part of the equity investments is held to match against the insurance liability.

The Company's equity investments are mainly in registered entities, but the Company also holds a small portion of investment in unregistered entities. Equity investments are measured at fair value through P/L (FVTPL).

	<u>31.12.2008</u>	<u>31.12.2007</u>
Shares in other companies at fair value through P/L	1.598.965	9.505.796
Listed securities at fair value through P/L	12.655.148	8.768.783

The effects of 5% and 10% increase in the fair value of equity investments are stated below. The changes do not take into account income tax effects. 5% and 10% decline in fair value would have the same effects but in opposite direction.

	<u>31.12.2008</u>		<u>31.12.2007</u>	
	<u>5%</u>	<u>10%</u>	<u>5%</u>	<u>10%</u>
Shares in other companies - effects on P/L	79.948	159.897	475.290	950.580
Listed securities - effects on P/L	632.757	1.265.515	438.439	876.878

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation. The Company is constantly monitoring the development of assets that are linked to credit risk.

Reconciliation of maximum credit risk:

	<u>Carrying amount</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
Market securities	12.655.148	8.768.783
Secured loans and other loans	3.838.054	6.775.704
Trade receivables	3.467.284	3.391.813
Reinsurance assets	683.917	818.964
Other receivables	253.664	47.949
Cash and cash equivalents	8.898.024	1.659.562
	<u>29.796.091</u>	<u>21.462.775</u>

The maximum credit risk consists of the carrying amounts above.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities.

On a regular basis the management is monitoring liquidity, the development, effects of market environment and expectations. Special attention is given to maintain an adequate level of liquid assets to cover repayments of borrowings and expected payments relating to the insurance liability. The Company's liquid assets are well adequate to cover expected short term cash outflow.

The Company operates under rules and regulations of supervisory authorities in Iceland. According to these rules the Company is required to provide certain breakdowns to the relevant authority, amongst others is a breakdown of liquid assets and liabilities.

Underwriting Risk

Underwriting risk is the risk that premiums collected from the insured are not sufficient to meet the liabilities arising from underwriting insurance policies.

The main elements of underwriting risk are loss-frequency risk, loss-size risk, reinsurers' risk and technical provision risk. Following is a short explanation and some key figures describing the risk.

Loss frequency risk

Loss frequency risk is the risk that losses or a certain type of losses becomes more frequent than expected and the insurance tariffs are based on.

The Company conducts close and constant examination of the loss frequencies of the various insurance branches, especially in private insurance such as motor vehicle insurance, house owner's insurance and homeowner's insurance, where there are many policies and relatively high loss frequency. It is important for the insurer to discover any trend in loss frequencies as soon as possible in order to take necessary measures. One of the most effective ways to deal with loss frequency risk is to diversify the insurance portfolio. The Company is a multiline insurance company with significant risk diversification between insurance branches. It has a wide spread and efficient distribution network all over Iceland and has some minor operation outside Iceland. The following table shows the diversification between insurance segments by premiums earned.

Insurance classes - Premiums earned

Property insurance	24,8%
Marine hull and cargo insurance	3,7%
Compulsory motor insurance	37,4%
Other motor insurance	16,1%
General liability insurance	5,8%
Accident and sickness insurance	10,8%
Reinsurance	1,4%
	100,0%

Loss-size risk

Loss-size risk is the risk of misjudging the average amount of losses or the likelihood of a severe loss event. Most of the losses are small losses or so-called frequency losses. The density of the losses decreases as loss amounts increase up to medium-sized losses, severe losses and catastrophic losses. To limit the impact of severe loss events and to protect the balance sheet against severe fluctuations, the Company devises a reinsurance program for each branch of the business and for the Company as a whole. The amount of risk that the Company carries for its own account is determined with respect to the financial strength of the Company and the nature of the risk. By implementing the reinsurance program the Company reduces the loss size risk significantly but by doing so, another risk arises, so-called reinsurers' risk.

Reinsurers' risk

Reinsurers' risk is the risk that a reinsurer will not be able to pay his share of a loss event. In severe loss events, the settlement can take many years. In that period the financial strength of a reinsurer can deteriorate so that a reinsurer is unable to fulfil its liabilities. In order to limit counterparty risk regarding the Company's reinsurers the reinsurance policy stipulates minimum rating from an international rating agency for the reinsurers participating in the reinsurance programs, maximum risk in one event reinsured with one reinsurer and guidelines for number of reinsurers in one reinsurance treaty. Following table shows reinsurers' rating as percentage of ceded premiums for 2008 and estimated figures for 2009.

	2009	2008
AAA	7,3%	1,9%
AA	1,1%	0,7%
AA-	66,3%	70,5%
A+	11,3%	13,2%
A	0,0%	0,6%
A-	14,0%	13,1%
	100,0%	100,0%

Technical provision risk

Technical provision risk is the risk that the incurred losses or the underlying risk related to insurance portfolio are underestimated. Technical provisions consist of unearned premiums and loss reserves. Unearned premiums are the estimated amount of insurance liabilities of unexpired policies. Loss reserves are the amount of unsettled losses, both reported losses and losses that are incurred but not reported to the insurer. The strength of technical reserves is examined by a set of statistical methods that makes it possible to estimate the outstanding losses and the risk margin.

Combined ratio and operating ratio

Combined ratio is the sum of the incurred losses, operating expenses and net reinsurance cost as a proportion of earned premiums. Operating ratio is the same as combined ratio but as a proportion of earned premiums and investment return from insurance operation.

The Company has a policy to lower combined ratio and the aim is that it will become lower than 100%. Improved ratio makes it possible for the company to meet lower return on its investments in the future. .

Following table shows the combined ratio and other key ratios for the insurance activity over the last five years:

Amounts in ISK 000

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Loss ratio	88,5%	80,7%	87,6%	83,6%	77,9%
Operating expenses ratio	19,9%	19,2%	22,1%	24,5%	25,6%
Reinsurance cost ratio	2,7%	4,7%	5,7%	8,3%	7,0%
Combined ratio	111,1%	104,6%	115,4%	116,4%	110,5%
Investment income ratio	16,4%	16,1%	18,4%	19,5%	21,7%
Other income ratio	1,5%	0,3%	-	-	-
Operating ratio	94,2%	89,9%	97,5%	97,4%	90,8%

24. Related party transactions

Related parties are those parties which have considerable influence over the Company, directly or indirectly, including parent company, owners or their families, large investors, key employees and their families and parties that are controlled or dependent on the Company, i.e. affiliates and joint ventures. Business with related parties has been done on a similar basis as business with unrelated parties.

Related parties transactions in the year 2008:

	<u>Purchases of goods/services</u>	<u>Sales of goods/services</u>	<u>Premiums earned</u>	<u>Claims</u>
Exista hf. and related parties	146.869	124.188	47.480	12.048
	<u>146.869</u>	<u>124.188</u>	<u>47.480</u>	<u>12.048</u>

Related parties transactions in the year 2008:

	<u>Receivables</u>	<u>Liabilities</u>
Exista hf. and related parties	3.096.989	66.996
	<u>3.096.989</u>	<u>66.996</u>

Related parties transactions in the year 2007:

	<u>Purchases of goods / service</u>	<u>Sales of goods / service</u>	<u>Premiums earned</u>	<u>Claims</u>
Exista hf. and related parties	78.065	101.285	45.530	22.818
	<u>78.065</u>	<u>101.285</u>	<u>45.530</u>	<u>22.818</u>

Related parties transactions in the year 2007:

	<u>Receivables</u>	<u>Liabilities</u>
Exista hf. and related parties	6.206.039	173
	<u>6.206.039</u>	<u>173</u>
	<u>2008</u>	<u>2007</u>
Loans to managers and directors	0	3.400
	<u>0</u>	<u>3.400</u>

25. Events after the Balance Sheet date

No events have occurred since the the balance sheet date, which would change the financial position of the Company and which would require adjustment of or disclosure in the annual accounts now presented.

26. Approval of the Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on April 15, 2009.

Glossary

Return on owners' equity	Profit as a ratio of owner's equity
Premiums entered	Premiums written during year
Own equity	Assets in excess of debts
Claim's ratio	Own claims in comparison with own premiums
Earned premiums	Premiums earned less reinsurers' share
Claims incurred	Premiums entered less reinsurers' share
Own technical provision	Retained premiums less reinsurers' share
Equity ratio	Own equity in comparison with total assets
Reinsurers' assets	Reinsurers' share in claims outstanding and provision for unearned premiums along with debts arising out of reinsurance operations
Reinsurance expense ratio	Reinsurance expense as a ratio of premiums earned
Reinsurance expenses	Premiums to reinsurers less the reinsurers' share in claims and received commissions from reinsurers
Investment income from insurance operations	Calculated return on own technical provision
Solvency	Owner's equity less prospective dividend payment, intangible assets and foreseeable impairment of own equity
Solvency ratio	Solvency as a ratio of minimum solvency
Net cash from operating activities	Funds and bank deposits
Provision for unearned premiums	Premiums from risk that has not expired
Premiums earned	Premiums from risk pertaining to year under review
Cost ratio	Cost as a ratio of premiums earned
Minimum solvency	Minimum solvency requirement according to law regarding insurance activities
Retained earnings	Accumulated profits from previous years
Operating ratio	Operating costs as a ratio of premiums earned
Combined ratio	Claims, reinsurance expenses and operating costs from insurance activities as a ratio of premiums earned
Claims paid	Paid claims with appendant changes to claims outstanding
Claims ratio	Claims paid compared to premiums earned
Claims outstanding	Calculated unpaid claims at end of accounting period
Technical provision	Total liabilities from of insurance contracts, i.e. claims outstanding along with provisions for unearned premiums

