

Líftryggingafélag Íslands hf.

Financial Statements

2010

Líftryggingafélag Íslands hf.
Ármúla 3
108 Reykjavík
Reg.no. 570990-1449

Líftryggingafélag Íslands hf.

Financial Statements

2010

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Líftryggingafélag Íslands hf., which comprise the balance sheet as at December 31, 2010, and the income statement, cash flow statement and statement of changes in equity 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 International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 Líftryggingafélag Íslands hf. as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Kópavogur, March 1st, 2011

Deloitte hf.



Hilmar A. Alfredsson

State Authorized Public Accountant

Endorsement by the Board of Directors and CEO

The financial statements for the year ended 31 December 2010, 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 kr. 362 million. According to the Balance Sheet total assets amounted to kr. 4.040 million and total equity amounted to kr. 2.010 million at the end of the year.

At year end the number of shareholders were 2. At the beginning of the year there were 2 shareholders. At year end one shareholder holds more than 10% of the shares, Exista ehf. 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 recommends that 150 million dividend will be paid to shareholders in the year 2011, 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 Líftryggingafélag Íslands hf. are of the opinion that the financial statements for the year 2010 contain all the information necessary to form a clear picture of the Company's standing at year end, the years's operating results and the years's financial development.

The Board of Directors and the CEO of Líftryggingafélag Íslands hf. hereby confirm the financial statements for the year 2010 with their signature.

Reykjavík, March 1st, 2011

Board of Directors



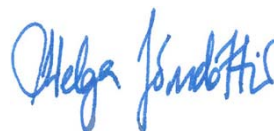
Axel Gislason
Chairman



Guðrún Þorgeirsdóttir



Guðmundur Pálsson



Helga Jónsdóttir



Hilmar Pétur Valgarðsson

CEO



Guðmundur Örn Gunnarsson

Income Statement for the year 2010

	Notes	2010	2009
Income from life-insurance operations			
Premiums earned		786.206	743.884
Premiums earned, reinsurers' share		(171.387)	(193.680)
Premiums earned, net of reinsurance	6	<u>614.819</u>	<u>550.204</u>
Investment income from life-insurance operations		36.947	43.370
Income from life-insurance operations total		<u>651.766</u>	<u>593.574</u>
Expenses from life-insurance operations			
Claims incurred		(266.292)	(291.731)
Claims incurred, reinsurers' share		104.973	114.416
Claims incurred, net of reinsurance	7	<u>(161.318)</u>	<u>(177.315)</u>
Operating expenses		(178.927)	(148.690)
Written off claims from life-insurance operations		(1.756)	0
Commission and net gains from reinsurers		14.884	18.176
Operating expenses total		<u>(327.117)</u>	<u>(307.828)</u>
Profit from life-insurance operations		<u>324.649</u>	<u>285.745</u>
Income and expenses from investment operations			
Investment income	9	225.053	319.628
Net gain on investments at fair value		2.935	1.228
Operating expenses		(44.807)	(39.962)
Allowances for doubtful financial assets		(24.145)	(59.983)
Investment expenses		(6.368)	(1.794)
Investment income total		<u>152.668</u>	<u>219.117</u>
Transferred investment income to life-insurance operations		(36.947)	(43.370)
Profit from investment operations		<u>115.721</u>	<u>175.748</u>
Profit before taxes		440.370	461.493
Income tax expense	10	(78.373)	(62.566)
Total profit		<u><u>361.998</u></u>	<u><u>398.927</u></u>
Earnings per share			
Earnings per share	11	2,41	2,90

Balance sheet at 31 December 2010

	Notes	31.12.2010	31.12.2009
Assets			
Investments	13	2.288.940	1.861.646
Deferred tax assets	10	35.117	38.320
Investment for the benefit of life-insurance policyholders who bear the investment risk		1.077.484	1.267.438
Accounts receivables		10.517	45.350
Reinsurance assets	14	137.921	125.335
Cash and cash equivalents		490.271	634.357
Total assets		<u>4.040.249</u>	<u>3.972.445</u>
Equity			
Share capital	15	150.000	150.000
Capital reserves		139.700	139.700
Retained earnings		1.720.296	1.508.298
Total equity		<u>2.009.995</u>	<u>1.797.997</u>
Liabilities			
Technical provision	17	723.061	667.346
Technical provision for life-insurance policies where the investment risk is born by the policyholders		1.077.484	1.267.438
Pension obligation		18.433	18.018
Accounts payable and other liabilities	18	211.277	221.646
Total liabilities		<u>2.030.254</u>	<u>2.174.448</u>
Total equity and liabilities		<u>4.040.249</u>	<u>3.972.445</u>

Statement of Changes in Equity for the year 2010

	Share capital	Capital reserves	Retained earnings	Total
Equity 1.1.2009	100.000	139.700	1.609.370	1.849.070
New share capital	50.000			50.000
Dividends, paid			(500.000)	(500.000)
Total profit			398.927	398.927
Equity 1.1.2010	150.000	139.700	1.508.297	1.797.997
Dividends, paid			(150.000)	(150.000)
Total profit			361.998	361.998
Equity 31.12.2010	150.000	139.700	1.720.295	2.009.995

Statement of cash flows for the year 2010

	Notes	2010	2009
Cash flows from operating activities			
Profit for the year		361.998	398.927
Investment income and expenses		(221.620)	(259.079)
Obligation, changes		6.355	(9.267)
Technical provision net of reinsurance, changes		47.912	58.124
Operating cash flow before movements in working capital		<u>194.645</u>	<u>188.705</u>
Other operating assets decrease (increase)		30.174	(20.016)
Operating liabilities(decrease) increase		(10.369)	57.568
Cash generated from operation		<u>214.449</u>	<u>226.257</u>
Interest and dividend income, received		222.150	306.272
Paid interest expenses		(6.368)	(1.794)
Net cash provided by operating activities		<u>430.232</u>	<u>530.735</u>
Cash flows from investing activities			
Investment in financial assets		(30.886)	(34.779)
Investment in other securities		(390.241)	(216.569)
		<u>(421.127)</u>	<u>(251.347)</u>
Cash flows from financing activities			
Dividends paid to owners of the Company		(150.000)	(500.000)
Proceeds form issues of equity shares		0	50.000
Pension obligation, paid		(2.736)	(2.290)
		<u>(152.736)</u>	<u>(452.290)</u>
Net increase in cash and cash equivalents		(143.632)	(172.903)
Cash and cash equivalents at beginning of the year		634.357	807.120
Effect of foreign exchange rates		(454)	139
Cash and cash equivalents at the end of the year		<u>490.271</u>	<u>634.357</u>
Other informations			
Working capital from operation		<u>410.427</u>	<u>493.184</u>

Notes

1. General information

Líftryggingafélag Íslands hf. (the Company) is a limited Company and operates subject to law no. 56/2010 concerning insurance operations and complies with the Icelandic limited companies law nr. 2/1995.

Líftryggingafélag Íslands hf. operates in the field of life-insurance and finance.

2. Adoption of new and revised Standards

2.1 New Standards and Interpretations

The following new and revised Standards (IFRS/IAS) and Interpretations (IFRIC) adopted in the current period:

IFRS 5 (as revised in 2009) - *Non-current Assets Held for sale and Discontinued Operations*.

IAS 1 (revised 2009) - *Presentation of Financial Statements*.

IAS 1 (revised 2010) - *Presentation of Financial Statements*.

IAS 7 (as revised in 2009) - *Statement of Cash Flows*.

IAS 27 (as revised in 2008) - *Consolidated and Separate Financial Statements*.

IAS 28 (as revised in 2008) - *Investments in Associates*.

IFRS 3 (as revised in 2008) - *Business Combinations*.

The above Standards and Interpretations have not lead to changes of the financial statements.

2.2 Standards and Interpretations in issue not yet adopted

By confirmation of the Financial Statements following new and revised standards and interpretations have been issued but not yet adopted:

IFRS 1 - *Adoption of International Financial Reporting Standards* (effective for accounting periods beginning on or after July 1, 2010);

IAS 24 - *Related Party Disclosures* (effective for accounting periods beginning on or after January 1, 2011);

IAS 32 - *Financial Instruments: Disclosures* (effective for accounting periods beginning on or after February 1, 2010);

IFRIC 14 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after February 1, 2010);

IFRIC 19 - *Extinguishing Financial Liabilities with Equity Instruments* (effective for accounting periods beginning on or after July 1, 2010);

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.

3. Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Notes

3.3 Revenue recognition

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.

Dividend and interest

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.4 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.

3.5 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.

Insurance risk is all risk, other than financial risk, that is moved from the policyholder to the insurer. Financial risk is however the risk of changes in the market environment.

Life insurance contracts insure events associated with human life, for example death or survival over a long duration. Premiums are entered as income in the period of the contract and claims are entered as expense in the period that the insured event occurs.

Investments with investment risk of the life insurance policyholders

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

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 tests, current best estimates of future contractual cash flows related to the claims.

Notes

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 claim 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 claims according to reinsured insurance contracts and share in premium liability. 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.

3.6 Foreign currencies

The individual financial statements of the Company are presented in ISK, the currency of the primary economic environment in which the entity operates (its functional currency).

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur.

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.8 Taxation

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 of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss whether in other comprehensive income or directly in equity.

3.9 Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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.

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 specific to the asset for which the estimates of future cash flows have not been adjusted.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.10 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Restructurings

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

Notes

Commitments

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Company's obligation.

- The amount of the underlying debt to be valued in accordance with IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*.
- The amount of initial contract, less accumulated depreciation in accordance with the standards of accounting for revenue.

3.11 Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets that are intended to hold to maturity and available-for-sale are measured at fair value plus transaction costs at the date when the Company has entered into an agreement for the delivery or receipt of financial assets within a specified time. Financial assets at fair value through profit or loss are initially recognized at fair value.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the purpose is to profit from short-term changes. The same applies with all other financial assets which the company defines FVTPL. Derivatives always fall under this category unless they are designated

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Listed shares and listed redeemable notes held by the Company that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in an equity account, the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Portfolio assets are assessed for impairment if certain assets are not such that they are not assessed individually.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Reclassification of financial assets

The Company has reclassified certain assets of the category FVTPL over the series AFS. Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

3.12 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Notes

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Notes

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Board of Directors have made assumptions and evaluations on the following items that have significant effect on the financial statement.

- Financial assets and allowances for doubtful financial assets
- Technical provision

5. Segment reporting

The following are the Company's segments of operation: Life-insurance operation and Financial operation.

Results of operations of segments for 2010 is as following:

	Life-insurance operation	Investment operation	Total
Premiums earned, net of reinsurance	614.819		614.819
Investment income	36.947	191.041	227.988
Total income	651.766	191.041	842.807
Claims incurred	(161.318)		(161.318)
Operating expenses	(164.043)	(51.174)	(215.217)
Written off claims / financial assets	(1.756)		(1.756)
Allowances for doubtful financial assets		(24.145)	(24.145)
Profit from segment	324.649	115.721	440.370
Income tax expense			(78.373)
Profit for the year			361.998

Assets and liabilities of Segments December 31, 2010 is as following:

	Life-insurance operations	Investment operation	Total
Assets			
Loans and other investments	2.231.277	42.086	2.273.363
Investment for the benefit of life-insurance policyholders			
who bear the investment risk	1.077.484		1.077.484
Reinsurance assets	133.137		133.137
Other assets	513.915	42.350	556.265
Segments' assets	3.955.813	84.436	4.040.249
Liabilities			
Technical provision	723.061		723.061
Technical provision for life-insurance policies where the			
investment risk is born by the policyholders	1.077.484		1.077.484
Other liabilities	229.709		229.709
Segments' liabilities	2.030.254	0	2.030.254

Notes

Results of operations of segments for 2009 is as following:

	Life-insurance operations	Investment operation	Total
Premiums earned, net of reinsurance	550.204		550.204
Investment income	43.370	277.487	320.856
Total income	593.574	277.487	871.060
Claims incurred	(177.315)		(177.315)
Operating expenses	(130.514)	(41.755)	(172.269)
Allowances for doubtful financial assets		(59.983)	(59.983)
Profit from segment	285.745	175.748	461.493
Income tax expense			(62.566)
Profit for the year			398.927

Assets and liabilities of Segments December 31, 2009 is as following:

	Life-insurance operations	Investment operation	Total
Assets			
Loans and other investments	1.557.986	673.017	2.231.003
Investment for the benefit of life-insurance policyholders			
who bear the investment risk	1.267.438		1.267.438
Reinsurance assets	125.335		125.335
Other assets	283.203	65.466	348.669
Segments' assets	3.233.962	738.483	3.972.445
Liabilities			
Technical provision	667.346		667.346
Technical provision for life-insurance policies where the			
investment risk is born by the policyholders	1.267.438		1.267.438
Other liabilities	239.664		239.664
Segments' liabilities	2.174.448	0	2.174.448

Life-insurance operation for the year 2010:

	Life-insurance individuals	Health and critical illness insurance	Total
Premiums earned, net of reinsurance	369.705	245.114	614.819
Investment income	15.984	20.963	36.947
Income from life-insurance operations total	385.689	266.077	651.766
Claims incurred	(70.264)	(91.054)	(161.318)
Operating expenses	(105.624)	(60.175)	(165.799)
Profit from life-insurance segment	209.801	114.848	324.649

Notes

Life-insurance operation for the year 2009:

	Life-insurance individuals	Health and critical illness insurance	Total
Premiums earned, net of reinsurance	347.945	202.259	550.204
Investment income	18.780	24.590	43.370
Income from life-insurance operations total	366.725	226.849	593.574
Claims incurred	(97.055)	(80.260)	(177.315)
Operating expenses	(86.600)	(43.914)	(130.514)
Profit from life-insurance segment	183.070	102.675	285.745

6. Premiums earned

	2010	2009
Premiums written	808.719	776.789
Premium written, reinsurers' share	(161.159)	(198.679)
Change in unearned premiums	(22.513)	(32.905)
Change in unearned premiums, reinsurers' share	(10.228)	4.999
	614.819	550.204

7. Claims incurred

	2010	2009
Claims paid	(233.090)	(254.986)
Claims paid, reinsurers' share	86.942	107.889
Change in claims provision	(33.201)	(36.745)
Change in claims provision, reinsurers' share	18.031	6.527
	(161.318)	(177.315)

8. Salaries and related expenses

	2010	2009
Salaries	15.461	7.648
Salaries related expenses	2.300	1.213
	17.761	8.861

Average number of full time equivalent employees 1 1

Salaries and benefits to the CEO and Board of Directors

	2010	2009
Guðmundur Örn Gunnarsson	4.800	4.800
Board member fees	5.820	1.540

Notes

9. Investment income

	2010	2009
Profit of shareholdings	0	593
Interest income	225.621	318.862
Exchange rate difference	(568)	174
	<u>225.053</u>	<u>319.628</u>

10. Income tax

10.1 Current tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is 78.3 million. In the year 2011 no income tax will be paid because of joint taxation with Exista ehf.

Legislation changing tax rates from 18%-20% was confirmed at December 18th, 2010 and is effective from January 1st 2011. The effect of higher tax rate on deferred tax assets at year end is 3.5 million. The change is charged to the Income Statement.

	2010	2009
Joint taxation with parent company.....	(75.169)	(74.506)
Change in deferred tax.....	(3.203)	11.941
Income tax according to Income Statement.....	<u>(78.373)</u>	<u>(62.566)</u>

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

	2010		2009	
	Amount	%	Amount	%
Profit before taxes	440.370		461.493	
Tax rate	79.267	15,0%	69.224	15,0%
Change in tax rate	(3.512)	-0,8%	(6.386)	-1,4%
Change in tax liability due to stocks	3.146	0,7%	0	0,0%
Change in fair value of financial assets	(528)	-0,1%	(183)	0,0%
Dividends from equity investments	0	0,0%	(89)	0,0%
Income tax according to Income Statement	<u>78.373</u>	17,8%	<u>62.566</u>	13,6%

10.2 Deferred tax

	Deferred tax
Deferred tax liability at January 1, 2009.....	26.379
Income tax for the period 2009.....	(62.566)
Joint taxation with parent company.....	74.507
Deferred tax assets at January 1, 2010.....	<u>38.320</u>
Income tax for the period 2010.....	(78.373)
Joint taxation with parent company.....	75.169
Deferred tax assets at December 31, 2010.....	<u>35.117</u>

Deferred tax assets is as following:

	31.12.2010	31.12.2009
Allowance for doubtful financial assets.....	38.536	38.320
Stocks.....	(3.495)	0
Other.....	76	0
	<u>35.117</u>	<u>38.320</u>

Notes

11. Earnings per share

Earnings per share is calculated as following:

	2010	2009
Net earnings	361.998	398.927
Average number of shares during the year	150.000	137.397
Earnings per share	2,41	2,90

No convertible bonds were issued and no share-based payments to employees were in the year 2010. Therefore diluted earnings per share is the same as earnings per share.

12. Dividend

The dividends paid in 2010 were 150 million ISK. In 2009 dividends paid were 500 million ISK.

13. Financial assets

	31.12.2010	31.12.2009
Financial assets measured at fair value		
Shares in other companies	114.051	80.234
Other financial assets	2.174.890	1.781.412
Total financial assets	<u>2.288.940</u>	<u>1.861.646</u>

Financial assets measured at fair value

	31.12.2010	31.12.2009
Shares in other companies:		
Listed in foreign stock exchanges	42.336	22.928
Other companies	71.715	57.306
	<u>114.051</u>	<u>80.234</u>
Other financial assets:		
Listed government securities	1.953.539	1.584.940
Other listed securities	119.996	102.353
Other unlisted securities	101.354	94.119
	<u>2.174.890</u>	<u>1.781.412</u>

Reservers for financial assets:

	31.12.2010	31.12.2009
Balance at beginning of the year.....	212.888	175.863
Allowances for doubtful financial assets and other long term assets.....	24.145	59.438
Bankrupt and uncollectable.....	(44.352)	(22.412)
Balance at end of year.....	<u>192.681</u>	<u>212.888</u>

14. Reinsurance assets

	31.12.2010	31.12.2009
Reinsurers' share in unearned premiums	58.153	68.381
Reinsurers' share in claims provision	74.985	56.954
Debtors arising out of reinsurance operations	4.784	0
	<u>137.921</u>	<u>125.335</u>

Notes

15. Share Capital

Share Capital is divided into two categories, A and B

	Shares	Ratio
Share Capital, category A	100.000	66,67%
Share Capital, category B	50.000	33,33%
Authorised Share Capital	<u>150.000</u>	<u>100,00%</u>

Changes in Share Capital is as following:

	Share Capital	Shares
At January 1, 2009.....	100.000	100.000
Paid-in Capital - category B.....	50.000	50.000
At January 1, 2010.....	<u>150.000</u>	<u>150.000</u>
At December 31, 2010.....	<u>150.000</u>	<u>150.000</u>

Shareholders in category B will always have 75% votes in stockholders meetings in proportion to their shares in the category. Both categories have the same entitlement in dividend and other rights.

16. Solvency

According to the Act of insurance activities the minimum solvency of the Company at the year-end was ISK 372 million. According to same act the minimum solvency can never be lower than EUR 3 million or ISK 496 million. This is significantly higher than last year. Minimum solvency of the Company is therefore ISK 496 million. Calculated solvency of the Company at the year-end was ISK 1.860 million. Solvency ratio is the ratio between calculated solvency and minimum solvency. Difference on calculated solvency and book value of equity specifies as follows:

	31.12.2010	31.12.2009
Equity according to Balance Sheet	2.009.995	1.797.997
Dividend payable	(150.000)	(150.000)
Calculated solvency	<u>1.859.995</u>	<u>1.647.997</u>
Solvency ratio.....	3,8	4,1

17. Technical provision

	31.12.2010	31.12.2009
Technical provisions specifies as follows:		
Unearned premiums	317.154	294.641
Claims provision	405.907	372.705
Technical provisions, total.....	<u>723.061</u>	<u>667.346</u>

18. Accounts payable and other debt

	31.12.2010	31.12.2009
Related parties, debt	206.051	166.066
Reinsurance, debt	0	20.866
Accounts, unpaid	625	27.286
Accrued commission	4.600	7.428
	<u>211.277</u>	<u>221.646</u>

Notes

19. Financial Instruments

19.1 The categories of financial instruments

The categories of financial assets and financial liabilities are as following:

Financial assets	31.12.2010	31.12.2009
Cash and cash equivalent	490.271	634.357
Financial assets at fair value through P/L	2.288.940	1.861.646
Loans and receivables	10.517	45.350
Financial liabilities	31.12.2010	31.12.2009
Other financial liabilities	211.277	221.646

19.2 Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset og liability, either directly (i.e. As prises) or indirectly (i.e. Derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At December 31, 2010	Level 1	Level 2	Level 3	Total
Financial assets at fair value through P / L	2.103.176	12.695	173.069	2.288.940
At December 31, 2009	Level 1	Level 2	Level 3	Total
Financial assets at fair value through P / L	1.661.460	46.648	153.538	1.861.646

19.3 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.

19.4 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.

Interest rate changes effect expected cash flow relating to floating rate assets. The company has only interest bearing assets on fixed rate and no interest bearing borrowings so there is no interest rate risk in the company. Interest bearing assets with fixed rate are accounted for at amortised cost.

19.5 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 not entered into foreign currency derivatives to reduce the foreign exchange risk. 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.

Notes

Currency	Closing rate		Average rate		Annual volatility
	2010	2009	2010	2009	2010
EUR	153,80	179,88	161,89	172,67	4,3%
SEK	17,155	17,515	16,963	16,305	8,4%
USD	115,05	124,90	122,04	123,59	11,0%

Foreign currency exposure 31.12.2010

	Assets	Liabilities	Net balance
EUR	90.406	0	90.406
SEK	74	0	74
USD	26.627	0	26.627

Foreign currency exposure 31.12.2009

	Assets	Liabilities	Net balance
EUR	78.815	0	78.815
SEK	65	0	65
USD	26.350	0	26.350

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 at balance sheet date. In the table above the effects of sensitivity analysis in foreign assets and liabilities are shown but it are mainly foreign securities. The sensitivity analysis assumes that all other variables, than the relevant foreign currency rate, are held constant. The sensitivity analysis takes into account foreign currency which involve high foreign exchange risk. The sensitivity analysis takes into account the tax effects and impact which reflects the income statement and equity. Because changes in fair value of foreign financial instruments are not through equity the effects on P/L and equity are the same. 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	31.12.2010		31.12.2009	
	5%	10%	5%	10%
EUR	3.707	7.413	3.350	6.699
SEK	3	6	3	5
USD	1.092	2.183	1.120	2.240

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

	31.12.2010	31.12.2009
Shares in other companies at fair value through P/L	200.933	89.413
Listed securities at fair value through P/L	2.088.007	1.772.233

Notes

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. In the case of available-for-sale financial assets the change in fair value is through equity account, therefore changes in result of the operation and equity is not the same.

	31.12.2010		31.12.2009	
	5%	10%	5%	10%
Shares in other companies - effects on P/L and equity	10.047	20.093	4.471	8.941
Other financial assets - effects on P/L	104.400	208.801	88.612	177.223

19.7 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:

	Carrying amount	
	31.12.2010	31.12.2009
Market securities	2.088.007	1.772.233
Trade receivables	10.517	45.350
Reinsurance assets	137.921	125.335
Cash and cash equivalents	490.271	634.357
	<u>2.726.716</u>	<u>2.577.275</u>

The maximum credit risk consists of the carrying amounts above.

19.8 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.

Expected cash flows from Claims provision is:

	Within	2012	2013+	Total
	one year			
31.12.2010				
Claims provision	289.663	84.745	31.499	405.907
	Within	2011	2012+	Total
	one year			
31.12.2009				
Claims provision	251.505	71.908	49.292	372.705

19.9 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.

Notes

19.10 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. It is important for the insurer to discover any trend in loss frequencies as soon as possible in order to take necessary measures timely. It reduces the loss frequency risk to diversify the insurance portfolio. The Company offers service in all types of life- and health insurance operated in Iceland and it has a wide spread and efficient distribution network all over the country. Following table shows the diversification between insurance segments by premiums written.

Insurance segments - Premiums written.

Life-insurance	57,5%
Health and critical illness insurance	42,5%
	<hr/>
	100,0%

19.11 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 of similar size, only few policies have high sum insured. To limit the impact of severe loss events and to protect the balance sheet against severe fluctuations, the company devises a reinsurance program. 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.

19.12 Reinsurers' risk

Reinsurers' risk is the risk that a reinsurer will not be able to pay his share of a loss event. The reinsurance policy stipulates minimum rating from an international rating agency for the reinsurers participating in the reinsurance programs and maximum risk in one event reinsured with one reinsurer. The reinsurers of Lifis have rating AA-.

19.13 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.

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

	2010	2009	2008	2007	2006
Loss ratio	33,9%	39,2%	32,1%	13,7%	38,2%
Operating expenses ratio	23,0%	20,0%	21,9%	18,4%	28,1%
Reinsurance cost ratio	6,6%	8,2%	11,2%	6,7%	9,6%
Combined ratio	63,4%	67,4%	65,2%	38,8%	76,2%
Investment income ratio	4,7%	5,8%	7,4%	6,5%	14,2%
Operating ratio	60,6%	63,7%	60,7%	36,5%	66,7%

Notes

20. Related parties

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. In Note 8 salaries and commissions to executives are shown.

Related parties transactions in the year 2010:	<u>Purchases of goods/services</u>	<u>Sales of goods/services</u>	<u>Premiums earned</u>	<u>Claims</u>
Exista ehf. and related parties	138.000	0	3.190	0
	<u>138.000</u>	<u>0</u>	<u>3.190</u>	<u>0</u>

Related parties transactions in the year 2010:	<u>Receivables</u>	<u>Liabilites</u>
Exista ehf. and related parties	0	206.051
	<u>0</u>	<u>206.051</u>

Related parties transactions in the year 2009:	<u>Purchases of goods/services</u>	<u>Sales of goods/services</u>	<u>Premiums earned</u>	<u>Claims</u>
Exista ehf. and related parties	122.043	0	3.048	0
	<u>122.043</u>	<u>0</u>	<u>3.048</u>	<u>0</u>

Related parties transactions in the year 2009:	<u>Receivables</u>	<u>Liabilites</u>
Exista ehf. and related parties	35.868	166.066
	<u>35.868</u>	<u>166.066</u>

21. Events after the Balance Sheet date

No events have occurred since 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.

22. Approval of the Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on March 1st, 2011.