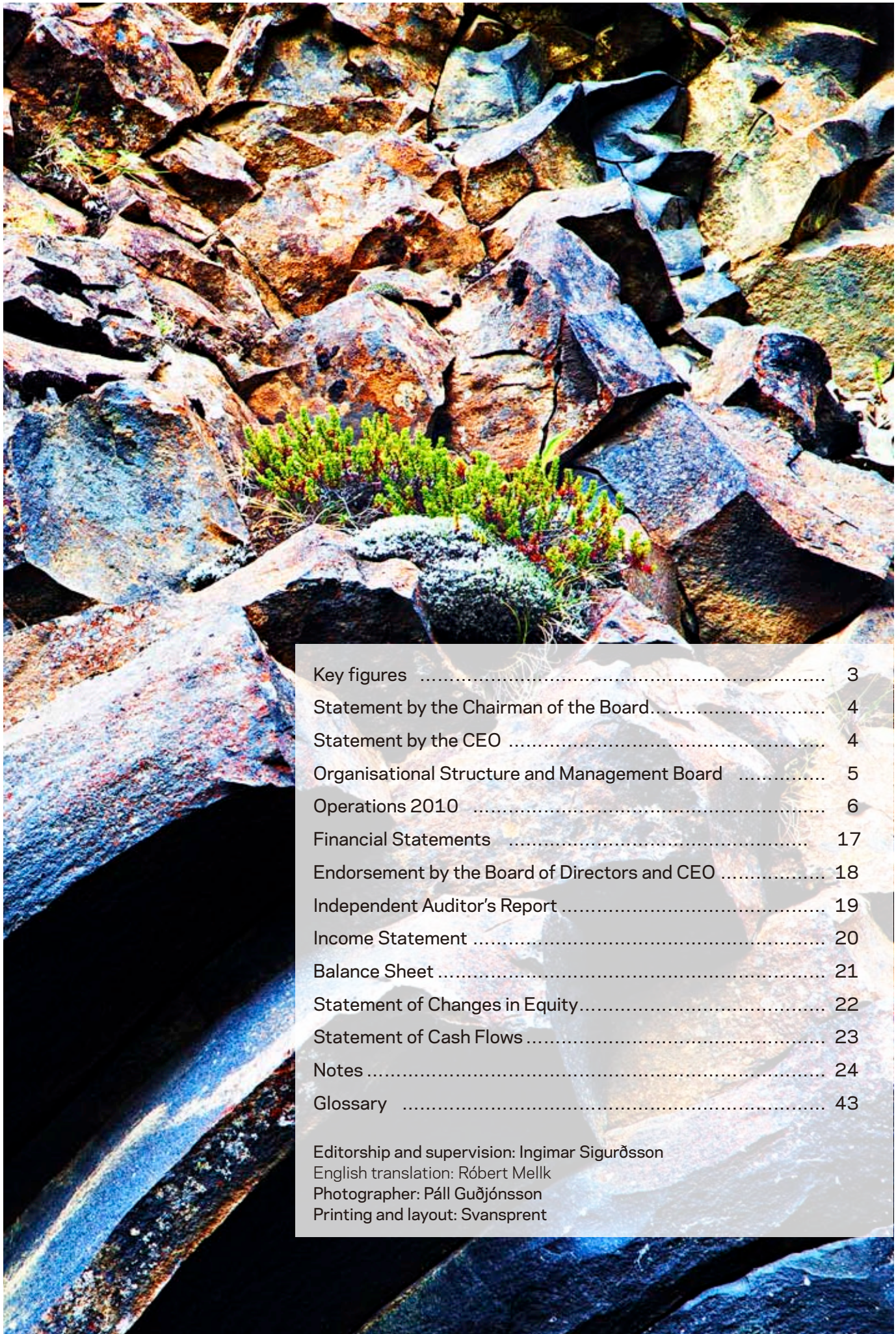




Annual Report 2010



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Editorship and supervision: Ingimar Sigurðsson	
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Key figures

	2010	2009	2008	2007	2006
Premiums, written	14.962	14.498	13.146	11.504	9.495
Premiums earned	14.873	14.265	12.367	10.831	8.956
Investment income from insurance operations ...	1.135	1.536	2.029	1.744	1.649
Other income from insurance operations	98	91	182	32	0
Claims incurred	-11.977	-12.274	-10.941	-8.745	-7.586
Operating expenses	-3.131	-2.753	-2.463	-2.080	-2.244
Reinsurance expenses	-398	-261	-339	-510	-508
Profit from insurance operations	600	604	836	1.272	267
Profit (loss) from financial operations	-288	668	-468	5.839	5.334
Other income	0	0	0	0	51
Taxes	-108	-108	-126	3.881	-566
Profit after taxes	204	1.164	242	10.992	5.086
Equity	11.146	10.942	9.678	10.236	20.298
Technical provision	22.615	21.696	20.720	19.667	18.714
Other liabilities	1.338	1.039	1.581	1.347	6.620
Equity and liabilities total	35.099	33.677	31.979	31.250	45.632
Claims ratio	80,5%	86,1%	88,5%	80,7%	84,7%
Cost ratio	21,0%	19,3%	19,9%	19,2%	25,1%
Reinsurance cost ratio	2,7%	1,8%	2,7%	4,7%	5,7%
Combined ratio	104,3%	107,3%	111,1%	104,6%	115,4%
Investment income and other income	8,3%	11,4%	17,9%	16,4%	18,4%
Operating ratio	96,3%	96,3%	94,2%	89,9%	97,5%
Own technical provision / Retained premiums ...	154,8%	154,8%	169,2%	186,3%	236,9%
Equity ratio	31,8%	32,5%	30,3%	32,8%	44,5%
Return on equity	1,9%	11,2%	2,3%	55,3%	28,8%
Equity	11.146	10.942	9.678	10.236	20.298
Solvency	11.146	10.942	9.678	10.236	18.798
Minimum solvency	2.908	2.595	2.200	1.862	1.559
Solvency ratio	3,80	4,20	4,40	5,50	12,06

Statements by the Chairman of the Board and the CEO



Axel Gíslason
Chairman of the Board

Axel Gíslason

VÍS stands on a solid foundation on Iceland's insurance market. The company's total assets at year-end 2010 were over ISK 35 billion, while equity was ISK 11.1 billion. VÍS has a dynamic team of employees with the experience and knowledge necessary to provide quality insurance services throughout Iceland. VÍS has not been immune to the economic slump that Icelanders have been undergoing in recent years. This is reflected, for example in a reduction in company profits during the last business year. This trend needs to be reversed.

VÍS's new Board was elected at a shareholders' meeting last December. Among its tasks is to continue the work that began the previous year to implement provisions of new insurance laws that went into effect in mid-2010. Several of the new regulations are still in the process of being instituted, which shall be confirmed by the Financial Supervisory Authority.

During times of difficulty, the role of insurance companies in a society is more important than ever, as individuals, families and businesses have less latitude when dealing with financial losses caused by unforeseen events. It can therefore be expected that many will need to reassess their insurance protection in accordance with changed circumstances, and the risk that they choose to bear personally. The company's service network is in part structured to provide customers around the country with all such assistance, since VÍS intends to continue to provide the support that our customers can rely on.

I would like to thank VÍS customers, employees and Board members for their collaboration and trust over the past year.



Guðmundur Örn Gunnarsson
CEO

Guðmundur Örn Gunnarsson

VÍS's performance was considerably weaker in 2010 than the year before, which is of course disappointing. The company wrote-off many more accounts receivable than previously, as difficult conditions on financial markets and declining interest revenue impacted quite negatively on the 2010 financial statements. One of the company's primary tasks will be to increase profitability and reduce costs even further. Work will continue on rationalising operations whenever possible.

Profit on company operations after taxes totalled in excess of ISK 204 million, while profit after taxes in 2009 was ISK 1,164 million. The most important factor involved investment activities that showed a loss in 2010, but returned a good profit in 2009. It should be kept in mind that VÍS's core operation, insurance, is on stable footing and returned a profit of over ISK 600 million.

When times are difficult, a downtrend in the insurance market can be expected, particularly regarding discretionary insurance. This is not true in relation to VÍS. In this respect the decline is less than might be anticipated, and is a welcome result. This indicates that VÍS customers clearly understand that their insurance protection should always be in order, no less so during economic crisis. VÍS puts great emphasis on preventative activities and education, as it is a policy that unmistakably reduces claims incurred. This also holds true in the battle against insurance fraud.

It is difficult getting Iceland's economic wheels to start turning again after the financial collapse. The financial situation of homes and business reflect this difficulty. My hope is that the government succeeds in breaking through this sluggishness in Iceland's economy so that circumstances for people and businesses will improve in 2011. There are many opportunities throughout Icelandic society, but as in football, being on the offensive can only bring results if the team is united. Icelanders must band together and choose solidarity instead of disunity if this period of recession is to end anytime soon.

Organisational Structure and Management Board



The Insurance Division is responsible for insurance operations of VÍS and Líffís. This includes providing comprehensive risk assessment, suitable pricing, administration and product development. The Insurance Division is also responsible for the company’s overseas operations. Division Manager is Friðrik Bragason.



The Claims Division is responsible for loss assessment, determination of compensation and settlement of losses, and monitors claims development of individual insurance branches. 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 also manages the company’s service network, and is responsible for marketing and public relations. Division Manager is Auður Björk Guðmundsdóttir.



The Finance Division is responsible for accounts, collections, reporting, settlements, accounting and operational matters for VÍS and Líffís. Division Manager is Guðmar Guðmundsson.



The IT Division is responsible for implementing and providing services relating to information technology economically and efficiently that provide support for company operations, employees and customers. This involves installing and servicing technical equipment and software, project management and consulting regarding information technology projects, development of IT systems and the operation of communications systems. Division Manager is Þórir Már Einarsson.

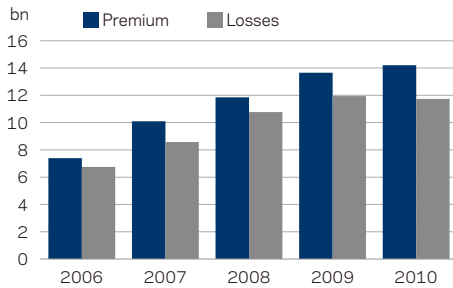


The Human Resources Division is responsible for all human resource issues, matters regarding education and training, hiring and wage processing, as well as providing consultation services to employees and management. Moreover, office supervision and cafeteria operations are the responsibility of this division. Division Manager is Anna Rós Ívarsdóttir.



Operations 2010

Premiums and losses retained



Premiums

Premiums earned totalled ISK 14,873 million, which is a 4.3% increase from 2009. Retained premiums totalled ISK 14,206 million, an increase of about 4.1% from the previous year.

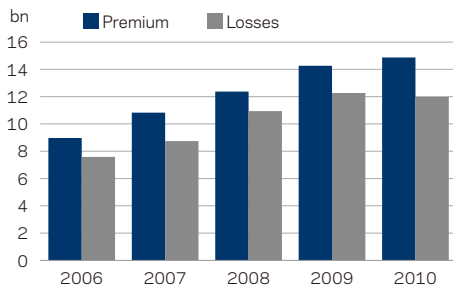
Claims

Claims incurred totalled ISK 11,977 million, which is a 2.4% decrease from the year before. Claims retained amounted to ISK 11,735 million, a decrease of about 1.7% from the previous year.

Operating expenses

Operating expenses less depreciation totalled ISK 2,912 million, an increase of about 275 million from the year before, or about 10.4%. Written-off claims from insurance operations amounted to ISK 218 million, an increase of about ISK 103 million from 2009.

Premiums earned and claims incurred



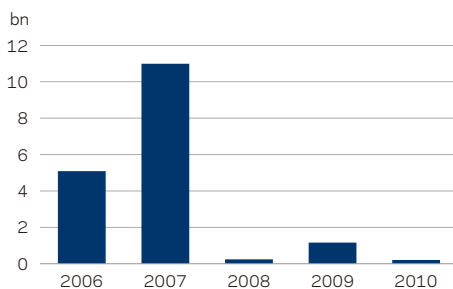
Financial operations

Income and expenses of financial operations totalled ISK 847 million, a significant decrease of about 61.6% from the year before. The company's operating revenue also contracted in 2010, declining from ISK 3,284 million to ISK 2,365 million. Revenue from value adjustments of investments were negative by about ISK 771 million, but were positive by ISK 114 million the previous year. Write-down on financial assets was ISK 421 million, but was ISK 950 million in 2009.

Net earnings

Profit from insurance operations amounted to ISK 600 million, compared to ISK 604 million in 2009. Loss from financial operations totalled ISK 288 million, compared to a profit of ISK 668 million the previous year. The main reason for the loss can be traced to less revenue from financial operations. Net earnings after taxes amounted to ISK 204 million, which is significantly less than in 2009 when profit after taxes was ISK 1,164 million.

Profit after taxes



Financial assets

At year-end 2010, VÍS's investment portfolio totalled ISK 28,777 million, a slight increase from the year before.

Equity

Equity in VÍS at year-end 2010 was ISK 11,146 million, an increase of about 1.9% from the year before. Equity ratio at the end of 2010 was 31.8%, compared with 32.5% in 2009.

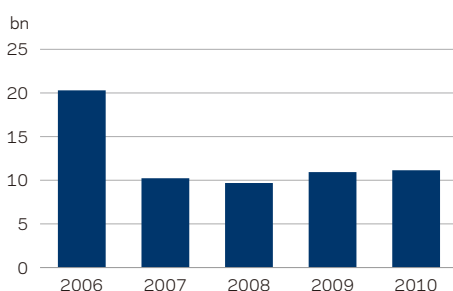
Liabilities

VÍS's total liabilities at year-end 2010 amounted to ISK 23,953 million, compared with ISK 22,735 million in 2009, which is an increase of about 5.4%. Technical provision at the end of 2010 was ISK 22,615 million, an increase of about 4.2% from the previous year.

Cash flow

Net cash from operating activities was ISK 901 million, but was negative by about ISK 425 million in 2009. Investment activities were negative by about ISK 4,029 million, and were also negative in 2009 by about ISK 2,573 million.

Equity



Net cash from operating activities

Net cash from operating activities at year-end was ISK 2,845 million, compared with ISK 6,161 million the previous year.

Operating profit of insurance segments

Property insurance

Premiums earned totalled ISK 4,081 million, which is an 11.0% increase from 2009. This increase is mainly the result of price-index increases, as well as changes in premiums for moveable property claims. Performance of property insurance has been negative in recent years. In 2010, this trend was reversed and the segment returned a profit of ISK 132 million. Improved performance of homeowner insurance is the single largest reason for this turnaround. However, excessive losses in casualty and fire insurance policies for companies had a negative impact on property-insurance performance.

Marine insurance

Premiums earned totalled ISK 523 million, a 1.2% increase from 2009. The segment returned a profit of ISK 103 million, which exceeded the company's expectations. The profit is in part the result of good performance in cargo insurance.

Mandatory motor insurance

Premiums earned amounted to ISK 4,975 million, a 1.2% increase from the year before. The rise can be attributed to price-index increases since number of policies continued to decline. Profit from this segment totalled ISK 3 million, which is far below the company's expectations. The reason can be primarily traced to elevated monetary sums for bodily injury.

Other motor insurance

Premiums earned totalled ISK 2,394 million, which is a 7.4% increase from 2009. Changes in the price index explain this increase. Good weather conditions and fewer vehicles on the road contributed to a lower loss frequency for the year. This branch showed a profit of ISK 315 million.

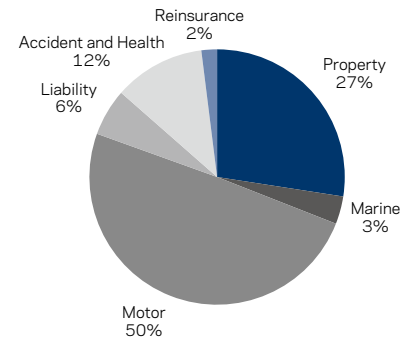
Liability insurance

Premiums earned amounted to ISK 888 million, a 7.9% increase from the previous year. Considerable liability claims have characterised this branch in recent years, but in 2010, operations were successfully turned around and returned a profit of ISK 115 million.

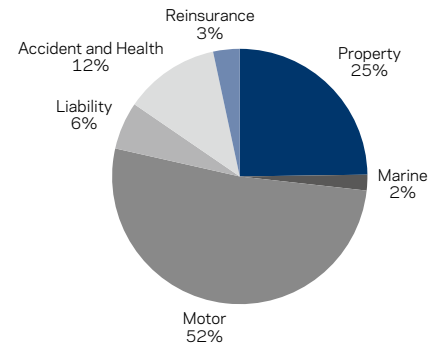
Personal accident insurance

Premiums earned from personal accident insurance totalled ISK 1,719 million, which is a 16.0% increase from 2009. The increase is mostly related to growth in international personal accident insurance, as well as new credit-card insurance contracts. Profit from personal accident insurance totalled ISK 95 million during the year.

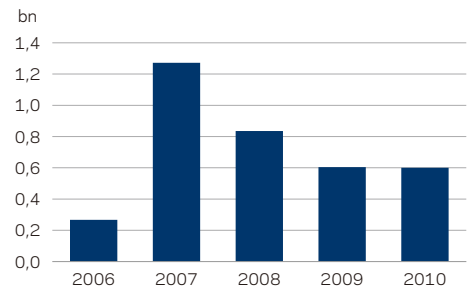
Premiums earned by branches



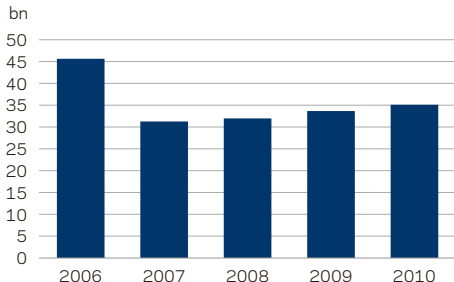
Losses incurred by branches



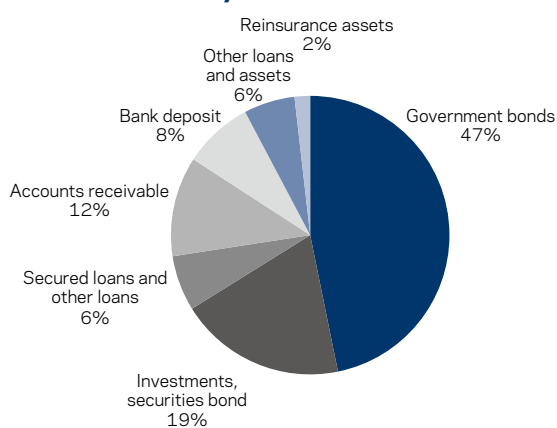
Results from insurance operation



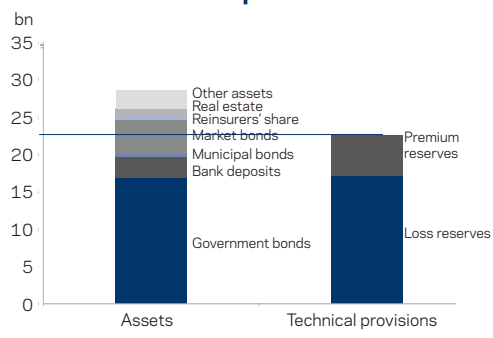
Total assets



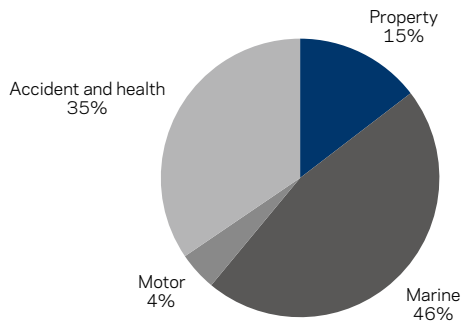
Composition of assets at year-end 2010



Composition of assets matching technical provisions



International business, premiums written by insurance sectors



International reinsurance

Premiums earned from international reinsurance were ISK 294 million, a 52.2% decrease from 2009. This decrease is largely the result of declining credit entries from past years. International reinsurance recorded a loss of ISK 159 million.

Accident prevention strategy

VÍS operated in line with its accident prevention strategy during the year. Emphasis was placed on increasing employee knowledge in this area. Customers were provided with information concerning preventative measures in a variety of ways, for example interaction with employees, phone calls, emails, pamphlets and website content.

The company organised numerous preventative activities during the year, for example an information campaign about drugs aimed at teenagers, and a fire-prevention campaign focusing on families. Moreover, the company gave reflectors to children and jogging groups. The VÍS website regularly posted accident prevention news about weather, homes, traffic and leisure activities. In addition, the volcanic eruptions at Fimmvörðuháls and then Eyjafjallajökull were extensively covered on the website with detailed information and instructions.

The "Traustakot" animated home was introduced on VÍS's website during the year. Individuals are guided through "Traustakot" and provided with information about burglary and fire prevention in a graphic format.

The company organised extensive accident prevention programs with numerous companies and municipalities in 2010. Special Traffic Safety Days were held in Greater Reykjavík in partnership with Strætó Public Bus System. The campaign focused on making pedestrians aware of traffic safety through positive messages. VÍS held an open conference on safety and accident prevention for companies in cooperation with the Administration of Occupational Safety and Health in Iceland. This was the first time in Iceland that an insurance company held a conference on company safety.

The Maritime Safety and Survival Training Centre signed a three-year safety-at-sea agreement with the company. This was in line with VÍS's commitment to be a leading insurance company in preventing accidents among seamen in Iceland.

Over 640 businesses were visited during the year where performance evaluations were conducted and safety measures assessed. This initiative has been received extremely well by customers, and led to preventative measures being improved. VÍS's vision is to provide its customers with quality prevention services with the ultimate goal of reducing accidents and losses for all concerned.

Product development

Product development during the year primarily involved improving existing insurance sectors in areas of claims, rate structure and own risk.

A special motorcycle insurance policy was marketed, which offered optional protective equipment insurance.

Terms for F plus family insurance continued to evolve with the aim of improving insurance performance. For example, an inexpensive and economic addition was made to the benefits included in F plus travel insurance .

New credit card-insurance terms were added in response to expanding business during the year. Own risk and discount structure were reviewed, for example business liability insurance for commercial vehicles. Moreover, rates for moveable property claims were changed, and stand-in insurance simplified.

In the autumn, new medical practitioner liability insurance was introduced. In addition, new terms were implemented for dental professional liability insurance

International markets

There was an upturn in the company's operations in international markets during 2010 compared with 2009. The claims ratio dropped from 130.9% to 121.0%, and the combined ratio went from 154.3% to 134.7%. The largest improvement was in marine insurance, in part due to the company's actions in response to poor performance results in 2009. However, performance of accident and health insurance has declined, primarily because of heavy claims. The company has taken systematic actions to counteract this trend, including the following: increases in premiums, cost reductions and changes in terms and conditions. These measures contribute to reducing claims incurred.

As previously, the company bases its participation in foreign markets on strong connections with established partners rather than maintaining offices in the respective countries. The defensive posture taken after the financial collapse in 2008 has carried the company through the storm, which is best reflected in the increase in premiums written year on year. It appears that new opportunities are once again beginning to appear.

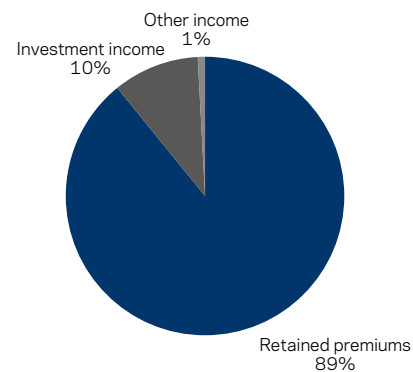
Growth continued in international accident and health insurance and property insurance. Premiums earned in these two sectors increased from ISK 251 million to ISK 370 million.

Premiums written relating to international business in 2010 totalled about ISK 793 million, an increase of about ISK 98 million from the year before. However, premiums earned decreased somewhat from the previous year from just under ISK 930 million to about ISK 703 million. This is mostly the result of decreasing credit entries from reinsurance contracts that were made in 2008 and 2009. Premiums earned from international reinsurance dropped from ISK 615 million to ISK 294 million. This was somewhat offset by increases in direct insurance fields year on year by about ISK 94 million.

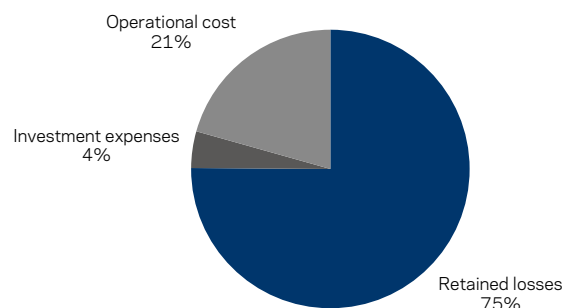
Risk assessment

Considerable emphasis was placed on risk assessment of new insurance policies. In order to further strengthen risk assessment, processes involving personal insurance, mandatory professional liability insurance and property insurance were improved during the year. At year-end, cooperation began with Frumherji involving risk inspections of properties for homeowner insurance. Special emphasis was concentrated on monitoring major risk in current insurance contracts. This is in connection with upcoming solvency directives, "Solvency II," where considerable emphasis is placed on risk analysis in insurance operations.

Income 2010



Expenses 2010



Claims

In 2010, claims totalling ISK 11 billion were paid, equal to over ISK 900 million per month. Over 32 thousand claims were reported for an average of 98 claims daily, every day of the year. There were seven major fires during 2010, of which several were caused by arson. Those responsible have not been found which is of great concern. There was no loss of life in these fires, but property loss cost hundreds of millions of króna.

There was no letup in burglaries and theft, although there was a slight reduction from the year before.

Automobiles burglarised and reported to VÍS during the year totalled 135, compared with 166 the previous year. Most were perpetrated in the first part of the year, and from August, their numbers dropped off significantly. As always, wallets and purses, GPS devices, computers and other valuables tempted thieves.

Burglaries of homes and businesses declined in 2010 compared to 2009, which was a record year. There were about 632 reported burglaries or a daily average of 1.73 during 2010. The worst months with over 70 burglaries each were March, May and October.

Reported bicycle thefts increased slightly in 2010 in comparison to the previous year, or 259 opposed to 243 in 2009.

Competition

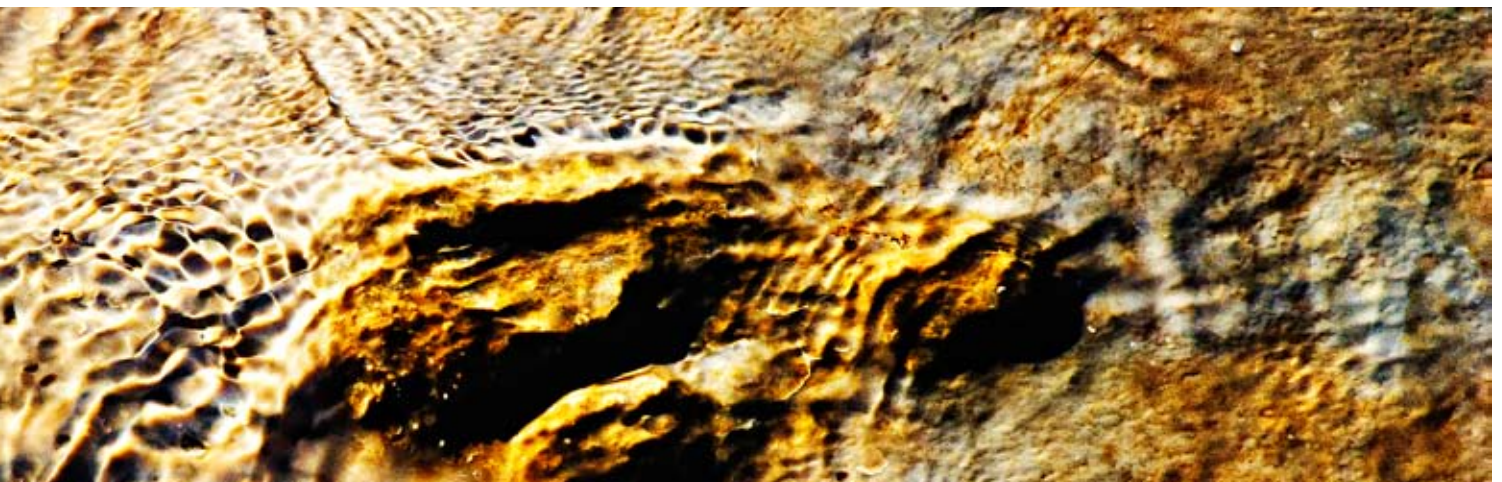
Competition on the insurance market was hard during the year, as it has been in past years. Dumping characterised the market, which led to a considerable upsurge in requests for insurance consultation by customers. Despite market volatility, growth in the company's market share exceeded expectations: from 35.5% in 2009 to 36.3% in 2010 and remains the largest insurance company in Iceland.

Business services

Competition was also strong on the business market. Companies are increasingly requesting quotes on insurance, as well as tender offers. In spite of increasingly robust price competition, VÍS has been able to hold its market share. A campaign was launched during the year to conduct performance evaluations of companies' safety and prevention health, which proved successful in implementation and in management approval. Over 600 businesses were visited throughout the country.

Sales campaign for Lífís

A campaign to sell life and health insurance was launched during the year under the slogan "Gizzur the Great." Digital signatures and telephone confirmations were used to close sales rather than signatures on paper.



Call centres

Telephone calls at VÍS call centres have been increasing from year to year, along with the company's growing market share in recent years. A total of 125 thousand phone calls were handled in the call centre during the year, which are about 10,400 calls per month. Calls increased by about 2,100 over the previous year. The response rate was over 90% at year-end.

Marketing

A new image campaign was launched in 2010 with the slogan, "Our role is to protect and insure." The advertisements depict daily life in Iceland in all its diversity. The aim of the campaign was to draw attention to VÍS's diverse services and dynamic service network. The animated world of these adverts creatively presented colourful scenes popping out of VÍS family albums.

Emergency Road Service

VÍS and Frumherji signed a cooperative agreement during the year titled "Tryggur Car assistance." The scheme involves assisting drivers in trouble anywhere in the country, anytime of the day or night, any day of the year. VÍS customers who are operating private vehicles, and have F plus or a home insurance policy, receive this service at a discounted rate of 50-70%. This new service has been very well received by VÍS customers.

Sponsoring the arts and culture

VÍS and the Iceland Symphony Orchestra signed an agreement whereby VÍS became one of the orchestra's main sponsors over the next three years. For many years, the Iceland Symphony Orchestra has been one of the foremost orchestras in Scandinavia, and received excellent reviews for its concerts and recordings at home and internationally.

VÍS and the Reykjavik City Theatre have enjoyed excellent cooperation for many years, and the company is one of the theatre's strongest supporters. In 2010, a cooperative agreement with the theatre was renewed, and the play "Ofviðrið" presented as a VÍS performance. The company invited a large number of customers who would be celebrating their 40th or 50th birthday in 2010 to see the play.

VÍS and Akureyri City Theatre renewed their cooperative agreement during the year, and the company supported the acclaimed performance of "39 Steps." VÍS customers in North Iceland celebrating their 40th or 50th birthday in 2010 were invited to see the play, which was much appreciated.

VÍS supports innovation

VÍS was a participant in "Útgerðin," an umbrella organisation for innovation projects that companies and universities in Iceland offer. The primary aims of this project were to launch Útgerðin, show solidarity and ensure that young students have a choice, that they do not emigrate abroad, but rather choose a career in the field of innovation and development. VÍS is proud to have helped Útgerðin, and by doing so promote innovation in Iceland.

VÍS loves handball

VÍS continued as a main sponsor of Iceland's National Handball Team. The company's marketing division developed new and fun advertisements in connection with handball that drew considerable positive attention from the public. Television commercials were made using animated figures of Iceland's handball stars, which were in line with the company's other ads. These commercials were aired in connection with the European Men's Handball Championship held in Austria, the European Women's Championship in Denmark.

Ragnheiður named VÍS Athlete of the Year

Swimmer Ragnheiður Ragnarsdóttir was named VÍS Athlete of the Year, which included a two-year collaboration and sponsorship contract with VÍS. Ragnheiður participated in two major competitions during the year: European Swimming Championships in Holland, and the World Swimming Championships

held in Dubai in December. Ragnheiður's long-term goal is to qualify for the 2012 Olympics in London, and be one of the best swimmers in the sport.

VÍS Championship League in Horse Sports

For the fourth successive year, VÍS was a main sponsor of the Championship League in Horse Sports. The competition began in January and continued until the end of April. Competitors were an elite group of Icelandic equestrians. Winner of the individual competition was Sigurður Sigurðsson. Málning hf. won the team competition.

Participating on dog shows

As in past years, VÍS supported the work of the Icelandic Kennel Club, and was present at the dog shows. This support was clearly appreciated at the shows, where guests and participants were invited to purchase insurance for their animals. Owners of animals insured by VÍS were invited to have photographs taken of their pets, or have illustrations drawn by students from the Reykjavík School of Visual Art. Pet owners were delighted.

Information technology

VÍS places major emphasis on utilising information technology wherever possible in its operations.

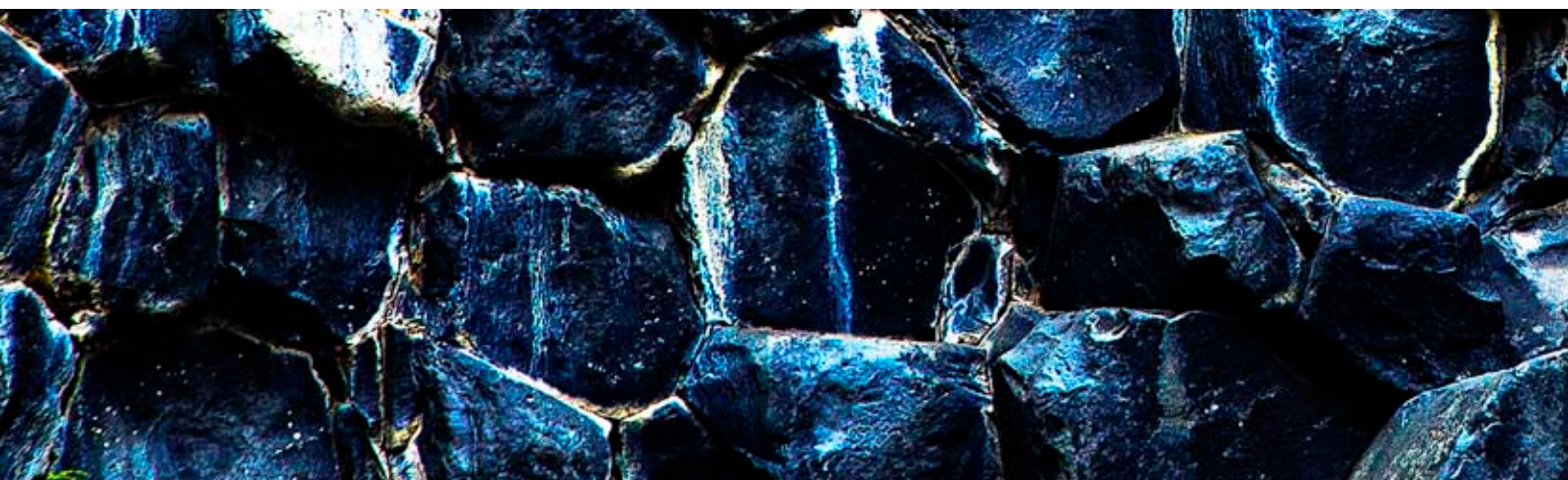
The company's IT team, working in cooperation with staff and subcontractors, developed a new Net solution in 2010 that improves services and simplifies disseminating information to customers. The solution, which is open to all employees, is called "Miðgarður" and provides overviews of all interaction, insurance and claims handling with customers regardless of the underlying systems storing the data.

Work is ongoing to provide customers additional access to information about their personal business through a Net solution at www.vis.is, which has been named "My insurance." The solution is built on the same technology as "Miðgarður."

Customers can use electronic identification on their debit cards when logging into the solution. The banking sector is working on implementing such cards. It is expected that most people will have received E debit cards by year-end 2011. This innovation will allow customers to more securely identify themselves to VÍS, and sign documents and commitments. This saves time, effort and money, and makes it possible to conduct business wherever and whenever.

Economic activity

It can be stated that the recession, which has defined the economic environment for business and families after the financial system collapsed in autumn of 2008, has been rather stable during 2010. The exchange rate



of the Icelandic króna against major currencies has strengthened somewhat during the year. The exchange rate index at the beginning of the year was about 233, but was 208 by year-end. The Central Bank of Iceland's mid-price in euros went from ISK 180 at the start of the year to about ISK 154 króna by year-end. The Central Bank of Iceland lowered its policy interest rate in 2010 from 8.5% í 3.25%, although there were restrictions on currency transfers in and out of Iceland. Inflation declined during the year. Twelve-month inflation was 6.6% at the beginning of 2010, but had dropped to 2.5% by year's end, which is the Central Bank's inflation target.

Private consumption and investments continued to decline in 2010. Measures by the government and financial institutions to help financially indebted homes and businesses were drawn out over the year. The Debtors' Ombudsman has begun working on payment and debt mitigation for families in the greatest need. It is expected that this work will result in corrected debt obligations for homes during 2011. Later in the year, financial companies and the government agreed on ways to assist businesses in reducing their debt burdens in order to help ensure operational integrity.

It is anticipated that 2011 will be a year of considerable housecleaning in the balance sheets and debt situations of businesses and families respectively. It is hoped that private consumption and investments will take a turn for the better when the stagnation, brought about by delaying actions to help businesses and homes, begins drawing to an end.

VÍS has felt this stagnation in its operations. Weak business activity among the company's customers in the contracting sector and other industries is the direct result of a depression, and leads to reduced income for families. A considerable number of accounts receivable had to be written down during 2010, and more effort was required to collect premiums.

It is anticipated that the economic situation will gradually improve over the year, that inflation will continue to remain around the Central Bank's inflation target, and that the currency rate of the króna will be stable.

Prudence will continue to be a key component in company operations during 2011.

Investments

The year 2010 was in many ways special since circumstances were unlike any we had experienced. Currency restrictions were tightened at the end of 2009, with the exception that capital entering the country was allowed to leave if had been reported when entering the country. In the wake of this move, the Icelandic króna strengthened in very small trading on the currency market. However, volume increased somewhat after the Central Bank of Iceland began regular purchases in August. The króna strengthened by 11%



over the year, mostly in midyear. It was strongest on 4 November and weakened somewhat as the year ended.

As in the previous year, investment opportunities were very limited and many locked-in krónur were looking for investment possibilities. Investment money, therefore, often looked to government securities, which to a large extent was the only option apart from bank accounts. In addition, there were fears that government-backed bank accounts would have limitations, so investors looked for safe harbour in government securities. Other investment possibilities were in real estate.

The banks still have a strong grip on companies that have found themselves in difficulties, and are very occupied in attempting to assist them. Several of these companies were presented to investors, either through open or closed offerings. VÍS participated in many of them in an endeavour to find more favourable investment alternatives, as well as to take part in rebuilding Iceland's economy.

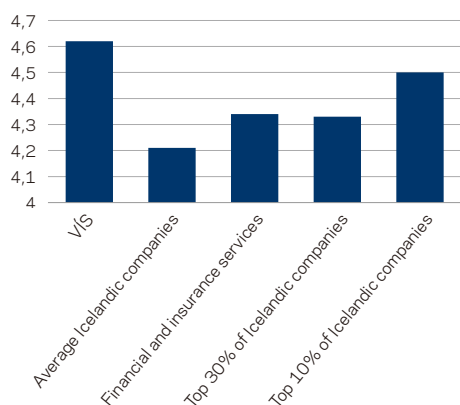
Inflation dropped significantly during the year. At year-end, it was below the Central Bank's 2.5% inflation target, and the 12-month inflation rate was just 1.8%. Investors, therefore, looked rather to non-inflation indexed securities than the inflation-indexed ones. The government responded to this demand by increasing the selection of the former.

International stock exchanges experienced increases during the year; Morgan Stanley World Index of equities rose about 9.6% in dollars. VÍS increased its portfolio of foreign stocks during the year.

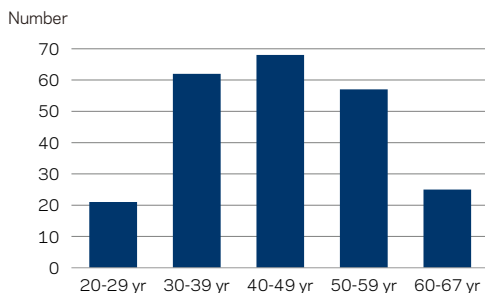
It was very satisfying to be a participant in several stock offerings held in Iceland. We hope that other companies decide it in their interest to list their stock in Iceland's market. It is important that pricing be based on market conditions to attract numerous investors, which would then better ensure active trading in the stock.

At year-end, work began on reviewing the company's investment strategy, in addition to reassessing procedure policy.

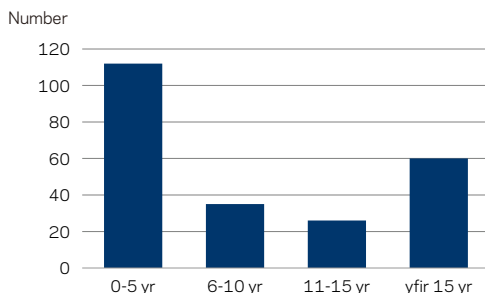
Job satisfaction



Age distribution



Period of employment



Human resource policy and the environment

VÍS endeavours to employ amicable and reliable people who are well versed in how to approach and handle responsibilities, and understand the role of the company and its vision for the future.

VÍS had 233 employees at year-end, although the average number of full-time equivalent employees during the year was 220. VÍS employees possess broad-based experience in their fields of activity, and their average period of employment is about 10 years. About 40% of employees have university degrees. The average age of employees is 45 years. The company has implemented an egalitarian policy, and the gender ratio is not far apart: 131 men and 102 women work at VÍS. One-third of managers and middle managers are women.

Job satisfaction

VÍS has an outstanding group of employees that work together as a dynamic team. VÍS has always had the objective of being Iceland's leading insurance company, and satisfied employees are key factors in the company's success. In association with Capacent, the company measures job satisfaction and other factors in the working environment. Conclusions are examined and actions taken according to need. In recent years, job satisfaction at VÍS has grown steadily. In a survey among employees implemented at the end of 2010, results showed that of the most important factors in the working environment, overall satisfaction had never scored higher. These conclusions are some the best among Icelandic companies.

Education

The company places great emphasis on education, and employees at VÍS have a wide range of opportunities for life-long education and continuing education. Organised training programs are offered to all employees, and endeavours are made to ensure that employees around the country can take advantage of the program. All seminars pertaining to the educational program are broadcast using teleconferencing equipment. The aim is for all employees working in insurance and claims to finish a specialised insurance course at the university level, taught at Reykjavík University. Eight employees finished this course in 2010, of which four were from regions outside Greater Reykjavík. Moreover, with the support of VÍS, many employees are enrolled in university studies while maintaining work responsibilities. For the third successive year, a group of employees took a Dale Carnegie seminar. About half of VÍS employees have now taken this seminar where emphasis is focused on communication and success at work.

A new procedure was instituted to improve the reception of new employees called the "recruitment system". The aim of the recruitment system was to better prepare newcomers for their work at VÍS: to shorten the learning curve in relation to the working environment, equipment and procedures of the respective job. Seventeen employees received special training as recruitment mentors. They have the role of providing counsel, keeping an eye out and helping the new employee to grow into the job, as well as provide information, guidance and positive feedback. The mentors should do their best to help the newcomer feel welcome in the new workplace.

Reinsurance

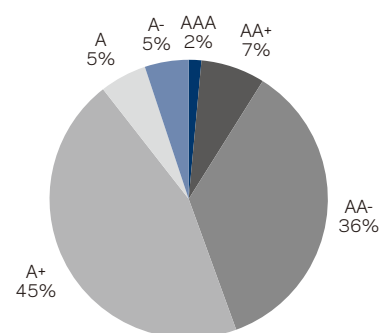
VÍS's reinsurance strategy requires that all reinsurers for VÍS have a security rating of A- or higher from Standard & Poor's or another certified rating agency. This minimises reinsurance risk for VÍS, i.e. that the reinsurer does not uphold his obligations. Operating profit of reinsurers was good in 2010. VÍS's reinsurance terms are good, as few claims having fallen on reinsurers for VÍS in recent years. Expenses relating to reinsurance are about 2.7% of premiums earned.

Risk management

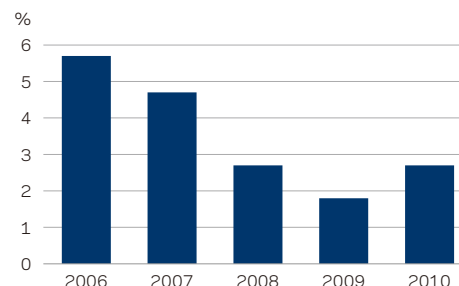
Risk management is a growing segment of operations at VÍS, and has been given more weight within the company's organisational structure. This development goes hand-in-hand with the changes appearing in the new solvency directives being discussed by the EU, which will include Icelandic insurance companies. These new solvency requirements, called Solvency II, shall become part of Icelandic law no later than year-end 2012.

The European Insurance and Occupational Pensions Authority (EIOPA) has in cooperation with insurance companies in the EU zone, conducted Quantitative Impact Studies (QIS) to determine the impact that various

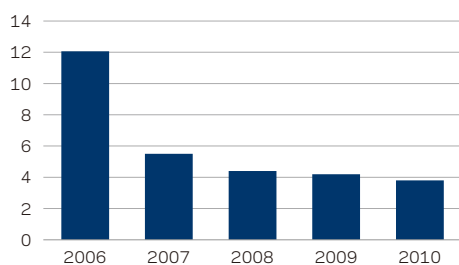
Reinsurers' security rating 2010



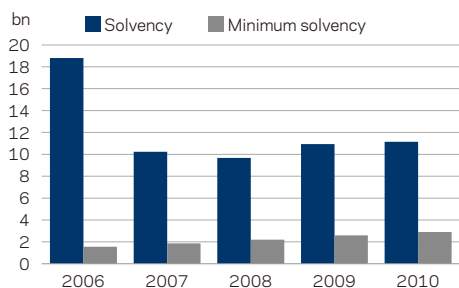
Reinsurance cost ratio



Solvency ratio



Solvency and Minimum solvency



implementations of solvency requirements have on the calculated solvency of insurance companies. Five such studies were conducted during the years 2005-2010. VÍS has always participated. The conclusion demonstrates the strong position held by VÍS according to the pending solvency directives.

In the upcoming solvency directives there will be greater emphasis placed on analysing risk factors in insurance company operations, and determining the financial resources necessary to meet them. This applies as much to risk in insurance operations as in investments.

Risk management is a deep-rooted aspect of 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. Financial claim limits have been set on the loss risk that the company is prepared to carry on its own, and a policy has been demarcated regarding how the company reinsures itself. The company's reinsurance policy stipulates limits on own risk, type of reinsurance contract, requirements regarding the reinsurer's security rating, maximum risk placed on 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 intends to increase risk spreading in insurance operations by accepting insurance policies 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. That process stopped when conditions changed on the financial markets, which created uncertainty regarding the financial position of the Icelandic State. There is now a wait until conditions change so that it will be possible to conclude the evaluation process.



Financial Statements

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 ISK 204 million. According to the Balance Sheet total assets amounted to ISK 35.100 million and total equity amounted to ISK 11.146 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 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 recommend that no 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 Vátryggingafélag 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' operating results and the years' financial development.

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

Reykjavík, March 1st, 2011

Board of Directors



Axel Gíslason
chairman



Guðmundur Pálsson



Guðrún Þorgeirsdóttir



Hilmar Pétur Valgarðsson



Hólga Jónsdóttir

CEO



Guðmundur Örn 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, 2010, 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, 2010, 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.

Kópavogur, March 1st, 2011

Deloitte hf.



Hilmar A. Alfredsson

State Authorized Public Accountant

Income Statement for the year 2010

	Notes	2010	2009
Income from insurance operation			
Premiums earned		14.872.999	14.265.293
Premiums earned, reinsurers ' share		(667.259)	(614.414)
Premiums earned, net of reinsurance	6	<u>14.205.740</u>	<u>13.650.879</u>
Other income from insurance operations		97.999	91.203
Investment income from insurance operations		<u>1.135.063</u>	<u>1.535.838</u>
Income from insurance operations total		15.438.802	15.277.920
Expenses from insurance operation:			
Claims incurred		(11.977.003)	(12.274.148)
Claims incurred, reinsurers ' share		242.229	336.597
Claims incurred, net of reinsurance	7	<u>(11.734.774)</u>	<u>(11.937.551)</u>
Operating expenses		(2.912.129)	(2.637.390)
Written off claims from insurance operations		(218.316)	(115.385)
Commission and net gains from reinsurers		<u>26.628</u>	<u>16.712</u>
Expense from insurance operations total		<u>(14.838.591)</u>	<u>(14.673.614)</u>
Profit from insurance operations		<u>600.211</u>	<u>604.307</u>
Income and expenses from investments:			
Investment income	9	2.365.196	3.284.493
Net gain on investments at fair value		(770.761)	114.119
Operating expenses		(323.763)	(238.373)
Allowances for doubtful financial assets		(420.865)	(950.009)
Investment expenses	10	<u>(2.770)</u>	<u>(6.174)</u>
Investment income total		847.037	2.204.056
Transferred investment income to insurance operations		<u>(1.135.063)</u>	<u>(1.535.838)</u>
(Loss) Profit from investment operations		<u>(288.026)</u>	<u>668.218</u>
Profit before taxes		312.184	1.272.525
Income tax expense	11	<u>(108.044)</u>	<u>(108.430)</u>
Total Profit		<u>204.140</u>	<u>1.164.095</u>
Earnings per share	12	0,08	0,45

Balance Sheet at 31 December 2010

	Notes	31.12.2010	31.12.2009
Assets			
Property, plant and equipment	13	460.150	503.174
Financial assets measured at fair value	14	23.214.246	18.702.819
Secured loans and other loans	14	2.257.000	2.165.897
Deferred tax asset	11	397.600	382.507
Accounts receivables	15	4.068.513	4.198.700
Reinsurance assets	16	634.936	602.200
Other receivables	17	1.221.400	960.643
Cash and cash equivalents	18	2.845.881	6.160.941
Total assets		<u>35.099.726</u>	<u>33.676.880</u>
Equity			
Share capital	19	2.602.481	2.602.481
Capital reserves		456.130	445.923
Retained earnings		8.087.603	7.893.670
Total equity		<u>11.146.214</u>	<u>10.942.074</u>
Liabilities			
Technical provision	21	22.615.078	21.695.896
Accounts payable	22	941.550	631.751
Other liabilities	22	396.884	407.160
Total liabilities		<u>23.953.512</u>	<u>22.734.806</u>
Total equity and liabilities		<u>35.099.726</u>	<u>33.676.880</u>

Statement of Changes in Equity for the year 2010

	Share capital	Capital reserves	Retained earnings	Total
Equity 1.1.2009	2.502.481	387.718	6.787.780	9.677.979
New share capital	100.000			100.000
Total profit			1.164.095	1.164.095
Statutory reserve		58.205	(58.205)	0
Equity 1.1.2010	2.602.481	445.923	7.893.670	10.942.074
Total profit			204.140	204.140
Statutory reserve		10.207	(10.207)	0
Equity 31.12.2010	2.602.481	456.130	8.087.603	11.146.214

Statement of Cash Flow for the year 2010

	Notes	2010	2009
Operating activities			
Profit for the year		204.140	1.164.095
Investment income and expenses		(1.591.665)	(2.487.047)
Depreciation and impairment of assets		69.000	69.615
Loss on sale of property and equipment		0	2.087
Technical provision net of reinsurance, changes		864.329	1.087.499
Obligation, changes		(15.093)	(159.783)
Operating cash flow before movem. in working capital		<u>(469.288)</u>	<u>(323.534)</u>
Other operating assets (increase) decrease		(74.933)	(906.966)
Operating liabilities increase (decrease)		299.524	(274.103)
Cash generated (to) operations		<u>(244.697)</u>	<u>(1.504.603)</u>
Dividend and interest revenue		1.148.174	1.085.643
Paid interest		(2.770)	(6.174)
Net cash from (to) operating activities		<u>900.707</u>	<u>(425.133)</u>
Investing Activities			
Property and equipment		(25.977)	(213.690)
Investment in financial assets		(1.325.824)	(1.092.799)
Investment in other securities		(2.677.838)	(1.266.933)
		<u>(4.029.639)</u>	<u>(2.573.422)</u>
Financial activities			
Proceeds from issues of equity shares		0	100.000
		<u>0</u>	<u>100.000</u>
(Decrease) increase in cash and cash equivalents		(3.128.932)	(2.898.555)
Cash and cash equivalents at beginning of the year		6.160.941	8.898.024
Effect of foreign exchange rates		(186.129)	161.473
Cash and cash equivalents at year-end		<u>2.845.881</u>	<u>6.160.941</u>
Other information			
Working capital from operation		<u>676.116</u>	<u>755.936</u>

Notes

1. General information

Vátryggingafélag Íslands hf. (the Company) is a limited company and operates subject to law no. 56/2010 concerning insurance operations and law no. 2/1995 concerning limited companies.

The company operates in the field of 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 (as revised in 2009) - *Presentation of Financial Statements*.

IAS 1 (as revised in 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 not yet effective

By confirmation of the Financial Statements following new and revised standars 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* (revised 2009, 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 Standards (IFRS - International Financial Reporting Standars) 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 financial statements are presented in Icelandic Krona (ISK), rounded to nearest thousand.

The principal accounting policies are set out below.

3.3 Income 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 year's 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 revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

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 assets to that asset's net carrying amount on initial recognition.

3.4 Expenses from insurance operations

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.

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

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 customer for the risk of causing harm to third parties as a result of their legitimate activities.

Personal accident insurance contracts compensate 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.

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.

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.

Deferred tax is recognized in the income statement except when it relates to items of equity, but he is also dealt with in equity.

3.9 Property, plant and equipment

Assets are recorded as fixed assets 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. Fixed assets are either presented under the cost method or the revaluation model. Cost basis of fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost of fixed assets comprises its purchase price and any directly attributable costs of bringing an asset into qualified income situation. According to the revaluation model fixed assets are stated at fair value at the date of revaluation, less any accumulated depreciation and subsequent accumulated impairment losses.

Land and buildings are stated at their revalued amounts and the re-evaluated amount is moved to a separate revaluation reserve account. The revaluation is the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. Revaluation decrease is entered against the revaluation increase. If the decrease in fair value in excess of previously revaluation increase is charged to the income statement. Depreciation of revalued land and buildings are expensed in the income statement.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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. At sale of revalued fixed assets the revaluation is moved to retained earnings.

3.10 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 is estimated to be less than its carrying amount, the carrying amount of the asset 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.

3.11 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.

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.

3.12 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 as hedges.

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 company 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.

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. The Company also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and 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 an equity account 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 an equity account.

Reclassification of financial assets

The Company has authority to reclassify 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.

3.13 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.

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.

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: Insurance operation and Financial operation.

Results of operations of segments for 2010 is as following:

	<u>Insurance operation</u>	<u>Investment operation</u>	<u>Total</u>
Premiums earned	14.872.999		14.872.999
Reinsurers' share	(667.259)		(667.259)
Other income	97.999		97.999
Investment income	1.135.063	459.372	1.594.435
Total income	15.438.802	459.372	15.898.174
Claims incurred	(11.977.003)		(11.977.003)
Claims incurred, reinsurers' share	242.229		242.229
Operating expenses	(2.885.501)	(323.763)	(3.209.264)
Written off claims / financial assets	(218.316)		(218.316)
Investment expenses		(2.770)	(2.770)
Allowance for doubtful financial assets		(420.865)	(420.865)
Operating profit of Segment	<u>600.211</u>	<u>(288.026)</u>	<u>312.184</u>
Income tax			(108.044)
Net earnings for the year			<u>204.140</u>

Depreciation in the insurance segment amounted to 66.8 million during 2010. Depreciation in the financial segment amounted to 2.2 million. Investments in the insurance segment amounted to 29.8 million during 2010.

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

	<u>Insurance operation</u>	<u>Investment operation</u>	<u>Total</u>
Assets			
Loans and other investments	23.157.352	135.408	23.292.760
Reinsurance assets	618.433		618.433
Other assets	5.052.561	6.135.972	11.188.533
Segments' assets	<u>28.828.346</u>	<u>6.271.380</u>	<u>35.099.726</u>
Liabilities			
Technical provisions	22.615.078		22.615.078
Other liabilities	1.338.434		1.338.434
Segments' liabilities	<u>23.953.512</u>	<u>0</u>	<u>23.953.512</u>

Results of operations of segments for 2009 is as following:

	<u>Insurance operation</u>	<u>Investment operation</u>	<u>Total</u>
Premiums earned	14.265.293		14.265.293
Reinsurers' share	(614.414)		(614.414)
Other income	91.203		91.203
Investment income	<u>1.535.838</u>	<u>1.862.774</u>	<u>3.398.612</u>
Total income	15.277.920	1.862.774	17.140.695
Claims incurred	(12.274.148)		(12.274.148)
Claims incurred, reinsurers' share	336.597		336.597
Operating expenses	(2.620.678)	(238.373)	(2.859.052)
Written off claims / financial assets	(115.385)		(115.385)
Investment expenses		(6.174)	(6.174)
Allowance for doubtful financial assets		<u>(950.009)</u>	<u>(950.009)</u>
Operating profit of Segment	<u>604.307</u>	<u>668.218</u>	<u>1.272.525</u>
Income tax			(108.430)
Net earnings for the year			<u>1.164.095</u>

Depreciation in the insurance segment amounted to 67.5 million during 2009. Depreciation in the financial segment amounted to 2.2 million. Investments in the insurance segment amounted to 214 million during 2009.

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

	<u>Insurance operation</u>	<u>Investment operation</u>	<u>Total</u>
Assets			
Loans and other investments	19.208.021	1.660.695	20.868.716
Reinsurance assets	602.200		602.200
Other assets	<u>8.558.685</u>	<u>3.647.279</u>	<u>12.205.964</u>
Segments' assets	<u>28.368.906</u>	<u>5.307.974</u>	<u>33.676.880</u>
Liabilities			
Technical provisions	21.695.896		21.695.896
Other liabilities	<u>1.038.910</u>		<u>1.038.910</u>
Segments' liabilities	<u>22.734.806</u>	<u>0</u>	<u>22.734.806</u>

Summary of insurance classes 2010:

	<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	4.081.420	522.736	4.974.767	2.393.558	887.700
Claims incurred	(2.967.074)	(238.609)	(4.537.751)	(1.661.785)	(722.674)
Operating expenses	(867.373)	(112.661)	(978.605)	(475.006)	(174.219)
Reinsurance cost, net	(318.933)	(87.899)	(29.993)	(1.618)	(34.604)
Investment income	143.591	19.753	536.515	59.992	159.274
Other income	<u>60.342</u>	<u>0</u>	<u>37.657</u>	<u>0</u>	<u>0</u>
Profit (loss) from insurance ...	<u>131.973</u>	<u>103.320</u>	<u>2.590</u>	<u>315.141</u>	<u>115.477</u>
	<u>Accident and Health insurance</u>	<u>Total direct insurance</u>	<u>Total reinsurance</u>	<u>Total</u>	
Premiums earned	1.718.902	14.579.083	293.916	14.872.999	
Claims incurred	(1.447.013)	(11.574.906)	(402.097)	(11.977.003)	
Operating expenses	(405.655)	(3.013.519)	(90.299)	(3.103.818)	
Reinsurance cost, net	48.018	(425.029)	0	(425.029)	
Investment income	180.439	1.099.564	35.499	1.135.063	
Other income	<u>0</u>	<u>97.999</u>	<u>0</u>	<u>97.999</u>	
Profit (loss) from insurance	<u>94.691</u>	<u>763.192</u>	<u>(162.981)</u>	<u>600.211</u>	

Summary of insurance classes 2009:

	<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	3.674.562	516.584	4.923.977	2.230.074	822.847
Claims incurred	(2.941.864)	(556.229)	(3.611.795)	(1.770.168)	(1.080.915)
Operating expenses	(712.773)	(115.095)	(895.900)	(412.220)	(151.181)
Reinsurance cost, net	(379.875)	(90.233)	63.462	(1.428)	150.315
Investment income	169.087	25.213	802.408	76.995	188.297
Other income	53.155	0	38.048	0	0
Profit (loss) from insurance ...	<u>(137.708)</u>	<u>(219.760)</u>	<u>1.320.200</u>	<u>123.253</u>	<u>(70.637)</u>
		<u>Accident and Health insurance</u>	<u>Total direct insurance</u>	<u>Total reinsurance</u>	<u>Total</u>
Premiums earned		1.482.300	13.650.344	614.950	14.265.294
Claims incurred		(1.647.204)	(11.608.175)	(665.972)	(12.274.147)
Operating expenses		(370.126)	(2.657.295)	(95.482)	(2.752.777)
Reinsurance cost, net		(1.797)	(259.556)	(1.548)	(261.104)
Investment income		229.366	1.491.366	44.472	1.535.838
Other income		0	91.203	0	91.203
Profit (loss) from insurance		<u>(307.461)</u>	<u>707.887</u>	<u>(103.580)</u>	<u>604.307</u>

6. Premiums earned

	<u>2010</u>	<u>2009</u>
Premiums written	14.962.348	14.497.708
Premius witten, reinsurers' share	(603.374)	(619.151)
Change in unearned premiums	(89.349)	(232.415)
Change in unearned premiums, reinsurers' share	(63.885)	4.737
	<u>14.205.740</u>	<u>13.650.879</u>

7. Claims incurred

	<u>2010</u>	<u>2009</u>
Claims paid	(11.147.170)	(11.530.426)
Claims paid, reinsurers' share	123.491	452.697
Change in claims provision	(829.833)	(743.721)
Change in claims provision, reinsurers' share	118.738	(116.100)
	<u>(11.734.774)</u>	<u>(11.937.551)</u>

8. Salaries and related expenses

	<u>2010</u>	<u>2009</u>
Salaries	1.282.481	1.161.334
Salaries related expenses	264.536	207.138
	<u>1.547.017</u>	<u>1.368.472</u>

Average number of full time equivalent employees 220 218

	<u>2010</u>	<u>2009</u>
Salaries and benefits to the CEO and Board of Directors.		
Guðmundur Örn Gunnarsson	19.874	19.789
Board of Directors	6.320	2.100

Total salaries and commission to executives in the year 2010 is ISK 108.2 million.

9. Investment income

	<u>2010</u>	<u>2009</u>
Interest income from deposits	246.735	611.802
Interest income from bonds	1.980.728	1.792.315
Dividends from shares	11.811	10.571
Exchange rate difference	(298.031)	448.681
Other interest income	423.953	421.124
	<u>2.365.196</u>	<u>3.284.493</u>

10. Investment expenses

	<u>2010</u>	<u>2009</u>
Interest expenses on short term liabilities	(2.770)	(6.174)
	<u>(2.770)</u>	<u>(6.174)</u>

11. Income tax

11.1 Current tax

Income tax is recognised in the income statement and the charged amount is ISK 108 million. No income tax is payable in 2011 for 2010 activities because of joint taxation with Exista ehf.

Legislation changing tax rates from 18%-20% was confirmed at December 18, 2010 and is effective from January 1, 2011. The effect of higher tax rate on deferred tax assets at year end is 39.8 million. The change is charged to Income Statement.

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

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Profit before taxes	312.184		1.272.525	
Tax rate	56.193	18,0%	190.879	15,0%
Change in tax rate	(39.760)	-12,7%	(63.751)	-5,0%
Dividend, gained	(2.126)	-0,7%	(1.586)	-0,1%
Change in fair value of financial assets	93.737	30,0%	(17.118)	-1,3%
Other items	0	0,0%	6	0,0%
Income tax according to the Income Statement	<u>108.044</u>	<u>34,6%</u>	<u>108.430</u>	<u>8,5%</u>

11.2 Deferred tax

	<u>Deferred tax</u>
Deferred tax liability at January 1, 2009.....	222.724
Income tax for the period 2009	(108.430)
Joint taxation with parent company	<u>268.213</u>
Deferred tax assets at January 1, 2010	382.507
Income tax for the period 2010	(108.044)
Joint taxation with parent company	<u>123.137</u>
Deferred tax assets at December 31, 2010	<u>397.600</u>

Deferred tax assets is as following:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Property and equipment	(51.073)	(40.734)
Allowance for doubtful financial assets	308.407	254.084
Other	<u>140.266</u>	<u>169.157</u>
	<u>397.600</u>	<u>382.507</u>

12. Earnings per share

Earnings per share is calculated as following::

	<u>2010</u>	<u>2009</u>
Net earnings	204.140	1.164.095
Average number of shares during the year	2.602.481	2.577.275
Earnings per share	0,08	0,45

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.

13. Property, equipment and depreciation

	<u>Buildings and land</u>	<u>Furniture, equip- ment and vehicle</u>	<u>Total</u>
Cost of assets			
Balance at January 1, 2009	122.365	363.208	485.573
Additions	0	213.690	213.690
Disposals	0	(2.752)	(2.752)
Balance at January 1, 2010	122.365	574.146	696.511
Additions	0	29.770	29.770
Disposals	0	(10.434)	(10.434)
Balance at December 31, 2010	122.365	593.482	715.847
Depreciation			
Balance at January 1, 2009	76.372	48.016	124.388
Depreciation expense	2.150	67.465	69.615
Disposals	0	(665)	(665)
Balance at January 1, 2010	78.522	114.816	193.338
Depreciation expense	2.194	66.806	69.000
Disposals	0	(6.641)	(6.641)
Balance at December 31, 2010	80.716	174.980	255.697
Book value			
Balance at January 1, 2010	43.843	459.331	503.174
Balance at December 31, 2010	41.649	418.502	460.150

The following useful lives are used in the calculation of depreciation.

Buildings	33 years
Equipment	3 - 4 years
Vehicle	7 years

Real estate and insurance valuation 31.12.2010 specifies as following:

	<u>Real estate valuation</u>	<u>Fire insurance valuation</u>
Buildings and land	70.647	193.560

14. Financial assets

	<u>31.12.2010</u>	<u>31.12.2009</u>
Financial assets measured at fair value		
Shares in other companies	1.875.961	1.321.447
Other financial assets	21.338.285	17.381.372
	23.214.246	18.702.819
Secured loans and other loans		
Securities	2.257.000	2.165.897
	2.257.000	2.165.897
Total financial assets	25.471.246	20.868.716

Financial assets measured at fair value

	<u>31.12.2010</u>	<u>31.12.2009</u>
Shares in other companies:		
Listed on the Icelandic stock exchange	275.941	22.353
Listed in foreign stock exchanges	655.887	370.949
Other companies	<u>944.133</u>	<u>928.145</u>
	1.875.961	1.321.447
Market securities:		
Listed government securities	16.286.589	12.139.094
Other listed securities	2.919.528	2.790.539
Unlisted government securities	141.065	184.164
Other unlisted securities	<u>1.991.103</u>	<u>2.267.575</u>
	21.338.285	17.381.372
Secured loans and other loans		
Mortgage loans	817.890	383.248
Secured loans	86.017	143.094
Other loans	<u>1.353.093</u>	<u>1.639.554</u>
	2.257.000	2.165.897
Total financial assets	<u>25.471.246</u>	<u>20.868.716</u>
Reserves for financial assets		
	<u>31.12.2010</u>	<u>31.12.2009</u>
Balance at the beginning of the year	2.771.342	1.873.206
Allowance for doubtful financial assets and other long term assets	674.710	942.754
Bankrupt and uncollectable	<u>(1.217.022)</u>	<u>(44.617)</u>
Balance at the end of the year	<u>2.229.030</u>	<u>2.771.342</u>

15. Accounts receivable

	<u>31.12.2010</u>	<u>31.12.2009</u>
Debtors arising out of reinsurance operations	3.978.440	4.145.141
Other account receivables	<u>90.074</u>	<u>53.559</u>
	4.068.513	4.198.700
Reserves for bad debt		
	<u>31.12.2010</u>	<u>31.12.2009</u>
Balance at the beginning of the year	300.076	233.562
Allowance for doubtful debt	366.665	181.899
Bankrupt and uncollectable	<u>(218.316)</u>	<u>(115.385)</u>
Balance at the end of the year	<u>448.425</u>	<u>300.076</u>

16. Reinsurance assets

	<u>31.12.2010</u>	<u>31.12.2009</u>
Reinsurers' share in unearned premiums	36.566	100.451
Reinsurers' share in claims provision	581.867	463.129
Debtors arising out of reinsurance operations	<u>16.503</u>	<u>38.619</u>
	634.936	602.200

17. Other receivables

	<u>31.12.2010</u>	<u>31.12.2009</u>
Prepaid taxes	910.179	897.706
Retention	294.086	0
Accrued interest receivables and prepaid expenses	<u>17.135</u>	<u>62.937</u>
	<u>1.221.400</u>	<u>960.643</u>

18. Cash and cash equivalent

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

	<u>31.12.2010</u>	<u>31.12.2009</u>
Cash	2.604	2.394
Bank deposits in Icelandic krona	1.898.590	4.003.363
Bank deposits in foreign currency	944.687	2.155.184
	<u>2.845.881</u>	<u>6.160.941</u>

19. Share Capital

Share Capital is divided into two categories, A and B

	<u>Shares</u>	<u>Ratio</u>
Share Capital in category A	2.502.757	96,16%
Share Capital in category B	100.000	3,84%
Authorised Share Capital	2.602.757	100%
Own shares	(277)	-0,01%
Share Capital according to annual report	<u>2.602.481</u>	<u>99,99%</u>

Changes in Share Capital is as following:

	<u>Share Capital</u>	<u>Shares</u>
At January 1, 2009	2.502.481	2.502.481
Paid-in Capital	100.000	100.000
At January 1, 2010	<u>2.602.481</u>	<u>2.602.481</u>
At December 31, 2010	<u>2.602.481</u>	<u>2.602.481</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. The Share capital is fully paid.

20. Solvency

According the Act on Insurance Activities, the minimum solvency of the Company at the year-end was ISK 2.908 million and calculated solvency ISK 11.146 million, and solvency ratio is 3,8. By considering cross-financing within the Group adapted solvency of the Company is calculated. Adapted solvency of the Company at the year-end was ISK 9.819 million and adapted solvency ratio 3,4. Difference on calculated solvency and book value of equity specifies as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Equity according to Balance Sheet	11.146.214	10.942.074
Dividend paid	0	0
Solvency	<u>11.146.214</u>	<u>10.942.074</u>
The minimum solvency	2.908.316	2.595.290
Solvency ratio	3,8	4,2

21. Technical provisions

	<u>31.12.2010</u>	<u>31.12.2009</u>
Technical provisions:		
Claims reported	13.867.773	13.655.031
Claims incurred but not reported	<u>3.329.590</u>	<u>2.712.500</u>
Claims outstanding	17.197.363	16.367.531
Unearned premiums	<u>5.417.715</u>	<u>5.328.365</u>
Technical provisions total	<u>22.615.078</u>	<u>21.695.896</u>
Reinsurers' share:		
Claims reported	459.926	398.107
Claims incurred but not reported	<u>121.941</u>	<u>65.022</u>
Claims outstanding	581.867	463.129
Unearned premiums	<u>36.566</u>	<u>100.451</u>
Reinsurers' share total	<u>618.433</u>	<u>563.580</u>

Technical provisions net of reinsurance:

Claims reported	13.407.847	13.256.924
Claims incurred but not reported	<u>3.207.649</u>	<u>2.647.478</u>
Claims outstanding	16.615.496	15.904.402
Unearned premiums	<u>5.381.149</u>	<u>5.227.914</u>
Technical provision net of reinsurance total.....	<u>21.996.645</u>	<u>21.132.316</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 2010 and 2009 is immaterial.

Movements in technical provisions during the year:

	2010			2009		
	Total	Reinsurers' share	For own account	Total	Reinsurers' share	For own account
Claims outstanding:						
Reported claims	13.670.030	(398.107)	13.271.923	13.142.709	(518.451)	12.624.258
IBNR	<u>2.697.500</u>	<u>(65.022)</u>	<u>2.632.478</u>	<u>2.481.100</u>	<u>(60.778)</u>	<u>2.420.322</u>
Total at beginning of year ...	16.367.530	(463.129)	15.904.401	15.623.809	(579.229)	15.044.580
Claims paid during the year						
arising from prior years ...	(6.334.291)	119.145	(6.215.146)	(6.196.133)	444.296	(5.751.837)
Increase in liabilities:						
arising from current year ...	7.696.286	(198.915)	7.497.371	6.377.257	(18.064)	6.359.193
arising from prior year ...	<u>(532.162)</u>	<u>(38.968)</u>	<u>(571.130)</u>	<u>562.597</u>	<u>(310.132)</u>	<u>252.465</u>
Total at the end of year ...	<u>17.197.363</u>	<u>(581.867)</u>	<u>16.615.496</u>	<u>16.367.530</u>	<u>(463.129)</u>	<u>15.904.401</u>

	2010			2009		
	Total	Reinsurers' share	For own account	Total	Reinsurers' share	For own account
Reported claims	13.867.773	(466.613)	13.401.160	13.670.030	(398.107)	13.271.923
IBNR	<u>3.329.590</u>	<u>(115.254)</u>	<u>3.214.336</u>	<u>2.697.500</u>	<u>(65.022)</u>	<u>2.632.478</u>
At beginning of year	<u>17.197.363</u>	<u>(581.867)</u>	<u>16.615.496</u>	<u>16.367.530</u>	<u>(463.129)</u>	<u>15.904.401</u>

Provision for unearned premiums:

At beginning of year	5.328.365	(100.451)	5.227.914	5.095.950	(95.714)	5.000.236
Changes during the year...	<u>89.349</u>	<u>63.885</u>	<u>153.234</u>	<u>232.415</u>	<u>(4.827)</u>	<u>227.588</u>
End of the year	<u>5.417.714</u>	<u>(36.566)</u>	<u>5.381.148</u>	<u>5.328.365</u>	<u>(100.541)</u>	<u>5.227.824</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.

22. Accounts payable and other liabilities**Accounts payable**

	<u>31.12.2010</u>	<u>31.12.2009</u>
Payables arising out of reinsurance operations	442.615	489.668
Reinsurance, debt	107.586	106.052
Associates, debt	<u>391.350</u>	<u>36.030</u>
	<u>941.550</u>	<u>631.751</u>

Other liabilities

	<u>31.12.2010</u>	<u>31.12.2009</u>
Accounts, unpaid	102.490	96.072
Salaries and related expenses, unpaid	257.736	240.077
Other liabilities	36.658	71.011
	<u>396.884</u>	<u>407.160</u>

23. Financial Instruments

23.1 The categories of financial instruments

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

Financial assets

	<u>31.12.2010</u>	<u>31.12.2009</u>
Cash and cash equivalent.....	2.845.881	6.160.941
Financial assets at fair value through P/L	23.214.246	18.702.819
Loans and receivables	8.181.849	7.843.453

Financial liabilities

	<u>31.12.2010</u>	<u>31.12.2009</u>
Other financial liabilities	1.338.434	1.038.911

23.2 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 measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) 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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through P / L	20.280.255	185.813	2.748.178	23.214.246

At December 31, 2009

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through P / L	14.979.401	547.602	3.175.816	18.702.819

23.3 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.

23.4 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.

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.

Sensitivity analysis

The sensitivity analysis below shows the effects of 50 and 100 point rise in yields on interest-earning assets would have on earnings and equity at the balance sheet date. The analysis covers the interest-bearing assets and floating rate based on it that all other variables than those examined here are held constant. The sensitivity analysis takes into account the tax effects and thus reflects the impact which the income statement and equity.

The effects on P/L and equity are the same since change in fair value of financial investments are not under any circumstances through equity. 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.

	31.12.2010		31.12.2009	
	50 pkt	100 pkt	50 pkt	100 pkt
Effects on P/L and equity	13.507	27.014	27.786	55.572

23.5 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. 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 2010
	2010	2009	2010	2009	
EUR	153,80	179,88	161,89	172,67	4,3%
GBP	178,47	201,60	188,55	193,89	9,1%
DKK	20,64	24,17	21,74	23,19	4,3%
NOK	19,67	21,67	20,21	19,80	8,8%
SEK	17,16	17,52	16,96	16,30	8,4%
USD	115,05	124,90	122,04	123,59	11,0%
CHF	122,91	121,26	117,24	114,32	9,4%
CAD	115,26	119,04	118,46	109,04	11,8%

Foreign currency exposure 31.12.2010

	Assets	Liabilities	Net balance
EUR	1.383.129	606.437	776.692
GBP	528.608	26.031	502.577
DKK	40.832	867	39.965
NOK	36.001	0	36.001
SEK	9.504	2.085	7.419
USD	2.411.481	851.922	1.559.559
CHF	32.409	0	32.409
CAD	0	13	(13)
Other	11.761	0	11.761

Foreign currency exposure 31.12.2009

	Assets	Liabilities	Net balance
EUR	2.578.885	348.111	2.230.774
GBP	376.047	33.487	342.561
DKK	798.314	0	798.314
NOK	1.243.601	0	1.243.601
SEK	11.678	57.918	(46.240)
USD	1.627.792	836.831	790.961

Sensitivity analysis

The table below shows the effects that 5% and 10% change of the relevant foreign currency rate against the ISK would have on income statement and equity based on the assets and liabilities denominated 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 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 the underlying foreign financial instruments are not through equity the effects on P/L and equity are the same. The depreciation of the Icelandic krona against the following currencies would result in an increase in profit and equity. Appreciation of the Icelandic krona would have the same effect, but in the opposite direction.

Effects on income statement and equity from an ISK depreciation

	31.12.2010		31.12.2009	
	5%	10%	5%	10%
EUR	31.844	63.689	94.808	189.616
GBP	20.606	41.211	14.559	29.118
DKK	1.639	3.277	31.467	62.934
NOK	1.476	2.952	17.288	34.575
SEK	304	608	496	993
USD	63.942	127.884	69.181	138.362

23.6 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. 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).

	31.12.2010	31.12.2009
Shares in other companies at fair value through P/L	3.113.506	2.247.930
Listed securities at fair value through P/L	20.100.740	16.454.889

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.

	31.12.2010		31.12.2009	
	5%	10%	5%	10%
Shares in other companies effects on P/L and equity	155.675	311.351	112.397	224.793
Listed securities - effects on P/L	1.005.037	2.010.074	822.744	1.645.489

23.7 Credit risk

Credit risk is the risk of the counterparties to the Company's inability to meet its obligations so the company loses its financial instruments. The company regularly monitor's the development of the assets related to credit risk

Reconciliation of maximum credit risk:

	Carrying amount	
	31.12.2010	31.12.2009
Market securities	20.100.740	16.454.889
Secured loans and other loans	2.257.000	2.702.710
Trade receivables	4.068.513	4.198.700
Reinsurance assets	634.936	602.200
Other receivables	1.221.400	960.643
Cash and cash equivalents	2.845.881	6.160.941
	31.128.470	31.080.083

The maximum credit risk consists of the carrying amounts above.

23.8 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 of Claims provision as follows::

31.12.2010	Within one year	2012	2013+	Total
	Claims provision	7.678.107	4.529.258	4.989.998
31.12.2009	Within one year	2011	2012+	Total
	Claims provision	7.381.756	4.435.601	4.550.173

23.9 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.

23.10 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 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 in the year 2010.

Insurance classes - Premiums earned

Property insurance	27,4%
Marine hull and cargo insurance	3,5%
Compulsory motor insurance	33,4%
Other motor insurance	16,1%
General liability insurance	6,0%
Accident and sickness insurance	11,6%
Reinsurance	2,0%
	<u>100,0%</u>

Domestic, foreign operation - Premiums earned

Domestic operation	95,3%
Foreign operation	4,7%
	<u>100,0%</u>

23.11 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 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.

23.12 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 2010 and estimated figures for 2011.

	<u>2011</u>	<u>2010</u>
AAA	1,6%	1,5%
AA+	7,1%	7,5%
AA	1,1%	0,0%
AA-	38,1%	35,5%
A+	40,1%	45,0%
A	6,3%	5,4%
A-	5,7%	5,1%
	<u>100,0%</u>	<u>100,0%</u>

23.13 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 methods that makes it possible to estimate the outstanding losses and the risk margin.

23.14 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:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Loss ratio	80,5%	86,1%	88,5%	80,7%	87,6%
Operating expenses ratio	21,1%	19,3%	19,9%	19,2%	22,1%
Reinsurance cost ratio	2,7%	1,8%	2,7%	4,7%	5,7%
Combined ratio	104,3%	107,2%	111,1%	104,6%	115,4%
Investment income ratio	7,6%	10,8%	16,4%	16,1%	18,4%
Other income ratio	0,7%	0,6%	1,5%	0,3%	-
Operating ratio	96,3%	96,2%	94,2%	89,9%	97,5%

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. 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	24.965	175.063	40.315	37.086
	<u>24.965</u>	<u>175.063</u>	<u>40.315</u>	<u>37.086</u>

Related parties transactions in the year 2010:

	<u>Receivables</u>	<u>Liabilities</u>
Exista ehf. and related parties	1.769.585	319.350
	<u>1.769.585</u>	<u>319.350</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	43.697	163.128	56.737	8.821
	<u>43.697</u>	<u>163.128</u>	<u>56.737</u>	<u>8.821</u>

Related parties transactions in the year 2009:

	<u>Kröfur</u>	<u>Skuldir</u>
Exista ehf. and related parties	3.144.982	36.030
	<u>3.144.982</u>	<u>36.030</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 March 1st, 2011.

Glossary of terms

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

