Annual Report 2012

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Key figures

	2012	2011	2010	2009	2008
Premiums written	16.105	15.480	14.986	14.498	13.146
Premiums earned	16.460	15.560	14.873	14.265	12.367
Investment income from insurance operations	1.112	924	1.135	1.536	2.029
Other income from insurance operations	132	116	98	91	182
Claims incurred	-12.113	-12.772	-11.977	-12.274	-10.941
Operating expenses	-3.550	-3.245	-2.912	-2.753	-2.463
Reinsurance expenses	-544	-488	-398	-261	-339
Profit from insurance operations	**1.497**	**95**	**819**	**604**	**836**
Profit (loss) from financial operations	2.185	524	-507	668	-468
Taxes	-950	-208	-108	-108	-126
Profit (loss) after taxes	2.732	411	204	1.164	242
Profit from discontinued operations	293	-3			
Net results	**3.025**	**408**	**204**	**1.164**	**242**
Equity	14.470	11.584	11.146	10.942	9.678
Technical provision	26.204	24.792	22.615	21.696	20.720
Other liabilities	2.778	1.814	1.338	1.039	1.581
Equity and liabilities total	**43.452**	**38.190**	**35.099**	**33.677**	**31.979**
Claims ratio	73,6%	82,1%	80,5%	86,1%	88,5%
Cost ratio	21,6%	20,8%	19,6%	19,3%	19,9%
Reinsurance cost ratio	3,3%	3,1%	2,7%	1,8%	2,7%
Combined ratio	98,5%	106,0%	102,8%	107,3%	111,1%
Investment income and other income ratio	7,6%	6,6%	8,3%	11,4%	17,9%
Operating ratio	91,5%	99,4%	94,9%	96,3%	94,2%
Own technical provision/Retained premiums	161,6%	161,1%	154,8%	154,8%	169,2%
Equity ratio	33,3%	30,3%	31,8%	32,5%	30,3%
Return on equity	23,2%	3,6%	1,8%	11,2%	2,3%
Equity	14.470	11.584	11.146	10.942	9.678
Solvency mother company	14.849	11.554	11.146	10.942	9.678
Minimum solvency mother company	3.058	3.058	2.908	2.595	2.200
Solvency ratio mother company	4,9	3,8	3,8	4,2	4,4

Amounts in millions ISK

Statement by the Chairman of the Board

Benedikt Jóhannesson
Chairman of the Board

VÍS's performance in 2012 was quite good. Profit after taxes amounted to over three billion króna, an operational result better than projected by management. The financial position of VÍS is strong. Total assets totalled ISK 43.5 billion at year-end 2012, of which total equity was ISK 14.5 billion.

Several of the company's long-term goals were achieved during the year, including the combined ratio (combined ratio of cost, claims and reinsurance premiums) that dropped below 100%, and the company's claim ratio that fell below 75%. The company did not experience any major claims, and investment activities were good as market conditions were favourable for the company. There are numerous concurrent factors that explain this positive performance, although it is evident that opportunities do exist to further improve operations. Comprehensive work on strategic planning for the company is ongoing, the main goal being to find ways of rationalising operations.

It is pleasing that performance in the insurance sector is now more satisfactory than before, as it returned a profit for the year of ISK 1,497 million, compared with ISK 95 million in 2011. Although individual insurance sectors can do considerably better, many sectors of the company's core operations are sound. No fundamental changes were made to the technical basis during the year and focus is on prevention in cooperation with customers.

Operations honed and strengthened

An agreement was concluded with the parent company of VÍS, Klakki ehf., in March 2012, regarding VÍS's purchase of a 99.93% stake in Lífís (Líftryggingafélag Íslands hf.), which had been an associate company. The purchase price was ISK 3,181 million. Lífís's operations have been profitable in recent years, and it has approximately a 25% share of Iceland's life insurance market. Moreover, the decision was taken to sell a VÍS subsidiary, The Security Center (Öryggismidstöd Íslands), in December, which resulted in VÍS then entering a profit of ISK 242 million.

Considerable effort and expense have gone into preparing the company for the eventual implementation of a new EU insurance operation directive, Solvency II. The main objective of the legislation is to further codify and harmonise EU insurance regulations when calculating solvency of insurance companies, and strengthen risk management and supervision of risk in operations. Work is proceeding based on the directive going into effect at the start of 2014, but according to an informal letter from the Commission of the European Community in October 2012, it is more likely that implementation will be at the start of 2015 or 2016. Concurrent to this work, VÍS composed internal regulations that the Financial Supervisory Authority has now approved. Internal regulations aim at having all procedures within the company as transparent as possible. The company has already begun embracing the methodology of Solvency II, and the Board has great hopes that all this work proves fruitful.

Importance of good corporate governance

The Board of VÍS endeavours to implement and maintain good corporate governance and follow "guidelines for corporate governance" that the Iceland Chamber of Commerce, Nasdaq OMX Iceland and SA-Confederation of Icelandic Employers published in March 2012. These guidelines ensure dissemination of information, transparency, and extend responsibilities of the company as well as its employees.

The implementation of rules of professional conduct that all employees of VÍS worked in accordance with during the year is part of this work. The Board ratified these rules in February 2013. Furthermore, VÍS's social responsibility was defined by a special workgroup and approved by the company's Board. The Board then also approved at its meeting on 1 March 2012 the company's new strategy, role, values and vision. Considerable effort was put into writing and reviewing all company regulations with the aim of improving corporate governance.

In February 2013, the Board of VÍS decided to begin preparations for listing the company on NASDAQ OMX or Nasdaq OMX Iceland. This work has proceeded well with the aim of Going Public in the spring of 2013. It has for some time been the aim of Klakki ehf., the owners of VÍS, to eventually sell their stake in VÍS. The objective of listing on Nasdaq OMX Iceland is to give institutional investors, along with the public, the opportunity to buy shares in the company.

I would like to extend company employees the Board's appreciation for work well done in 2012. I also express my thanks to the CEO, management and Board members for good collaboration during the year.

Operations

Premiums
Premiums earned totalled ISK 16,460 million, which is a 5.8% increase from 2011. Retained premiums totalled ISK 15,871 million, an increase of about 5.5% from the previous year.

Claims
Claims incurred totalled ISK 12,113 million, which is a 5.2% decrease from the year before. Claims retained amounted to ISK 12,067 million, a decrease of about 5.4% from the previous year.

Operating expenses
The group's operating expenses less depreciation amounted to ISK 4,044 million, and were ISK 3,608 on 2011. Operating expenses increased about ISK 436 million, or about 12.1% over the previous year. A Financial Activities Tax was levied on the company during the year that amounted to ISK 101 million. Depreciation totalled ISK 144 million, and was ISK 197 million the year before.

Financial operations
Operating revenue totalled ISK 3,936 million, an increase of about 95.9% from the previous year, which is a significant increase. Change in fair value of financial assets was positive by about ISK 1,077 million, compared with ISK 209 million the year before.

Other income
Other income totalled ISK 132 million, and was ISK 116 million the previous year.

Net earnings
Net earnings before taxes amounted to ISK 3,682 million, of which profit from insurance operations was ISK 1,497 million, compared to ISK 95 million in 2011. Profit from financial operations totalled ISK 2,185 million, compared to ISK 524 million the year before. The main reason for the increased profit, can be traced to additional revenue from financial operations and good performance of financial operations. Net earnings after taxes totalled ISK 2,732 million, in addition to results from operating activities totalling ISK 293 million. Comprehensive income for the year was ISK 3,025 million.

Financial assets
At year-end 2012, the investment portfolio totalled ISK 30,388 million, a slight increase from the year before.

Equity
Equity at year-end 2012 was ISK 14,470 million, an increase of about 24.9% from the previous year. The equity ratio at year-end 2012 was 33.3%, compared with 30.3% in 2011.

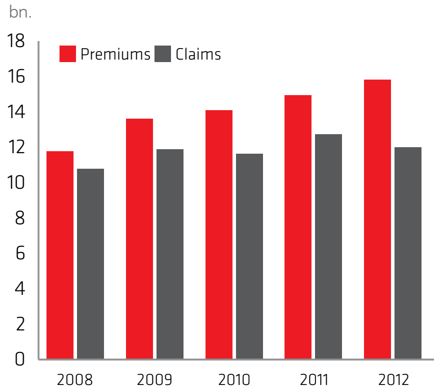
Liabilities
Total liabilities at year-end 2012 amounted to ISK 28,982 million, but were ISK 26,606 million in 2011, which is an increase of about 8.9%. Technical provision at year-end 2012 was ISK 26,204 million, an increase of about 5.7% over the previous year.

Cash flow
Net cash from operating activities was ISK 3,522 million, but was ISK 2,702 million in 2011. During the year, assets purchased exceeded those sold by ISK 3,744 million, which was ISK 404 million the year before.

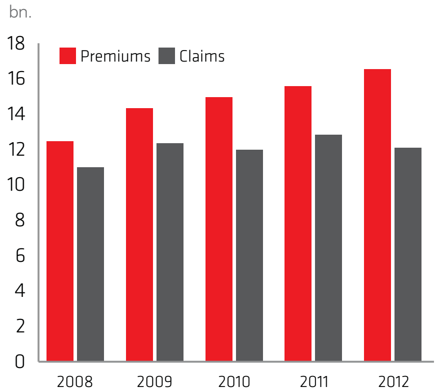
Net cash from operating activities
Net cash from operating activities at year-end was ISK 4.318 million, compared with ISK 4.615 million the previous year.

Note: The parent company acquired Lífís - Líftryggingafélag Íslands on 1 April 2012. Operations of Lífís for the period 1 April to 31 December 2012 are included in the Consolidated Financial Statements.

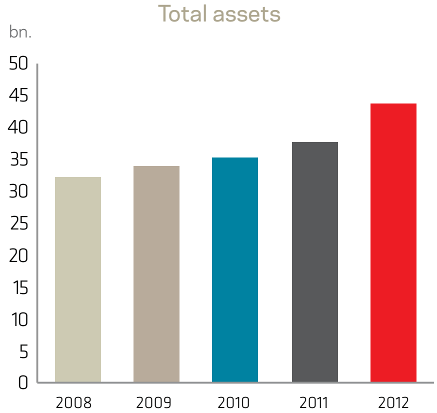
Premiums and losses retained



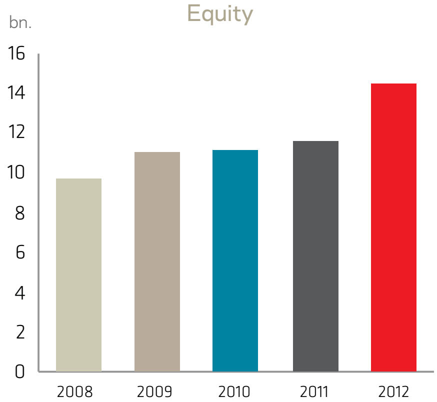
Premiums earned and claims incurred



Total assets



Equity



Statement by the CEO

Sigrún Ragna Ólafsdóttir
CEO

VÍS continued to strengthen in 2012. Company profits were ISK 3,025 million, compared to ISK 408 million in 2011, with return on equity at 23.2% compared with 3.6% return on equity in 2011. VIS's financial position is strong. The Group's total assets totalled over ISK 43.5 billion at year-end 2012, and total equity was about ISK 14.5 billion. At year-end 2012, the equity ratio was ISK 33.3%, solvency of the parent company was ISK 14.8 billion, and the solvency ratio was 4.9, which is well above the company's target of over 4.0. The Group's technical provision stood at ISK 26.2 billion, while assets that offset the company's technical provision were ISK 38.5 billion, or 12.3 billion higher, which reflects VÍS's financial strength.

Strong market position

VÍS's operations are built on two core activities: insurance undertakings and investments. The company's position is strong in insurance. With a 36% market share, VÍS is the largest insurance company in Iceland. Its customers number about 82 thousand throughout the country, serviced in 2012 by 42 offices. This robust network of branch offices adds significant value to the company's operations.

Employees of VÍS, service an average of 2,500 liability claims monthly, or about 30,000 claims annually. In recent years, the claim ratio has been high, but in 20012, the long-term goal of lowering the ratio to below 75% was achieved, or 73.6% compared with 82.1% in 2011. It is satisfying to see results from the considerable effort that has been put into strengthening risk assessment and pricing for the various insurance sectors.

Another long-term goal was attained during the year; to bring the combined ratio below 100%. It was 98.5% in 2012 compared with 106.1% the previous year. It is no longer acceptable to rely solely on performance of investment activities to compensate for deficits in insurance operations, which was considered tolerable in years past. Company employees will focus efforts on maintaining these good results.

Investment activities

VÍS's other core activity, investments, also performed well during the year. Emphasis has been placed on increasing the balance of listed assets in the company's portfolio, in part to provide additional investment security. Market conditions were rather favourable to the company during the year. However, there is concern regarding abnormal price increases in investments, which are not based on additional value, but rather an imbalance in supply and demand.

VÍS is responsible for growing the company's assets in a safe and responsible manner, since the largest part of company assets are for meeting technical provisions. These assets are in essence the property of our customers, and they need to be able to trust that they are available when the need arises. Our objective is to ensure that all investments are in line with the company's investment strategy and risk acceptability

Strategic planning generates results

The company conducted wide-ranging strategy planning during the year. All employees participated in these efforts, as well as customers and associates. This strategy planning, which extends to 2017, is ambitious, methodical and realistic, and creates a future for us that is based on a trustworthy and sound company with a well-defined role.

The role of VÍS is to be a reliable, leading and progressing service company that provides its customers with the appropriate insurance protection, and through robust prevention contributes to a more secure and safe society. The role and vision of VÍS are compatible with the company's values of care, professionalism and achivement. An element in the new strategy planning is a new logo that VÍS unveiled during the year.

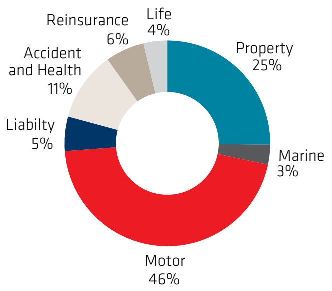
Bright horizons

A good year is behind us. VÍS stands on firm ground, and it is clear that the company has navigated well through the turbulence that the Icelandic economy has gone through in recent years. Work is now progressing on listing VÍS on NASDAQ OMX or Nasdaq OMX Iceland. In my judgement, the company is well prepared for such a listing. There are most definitely exciting times on the horizon.

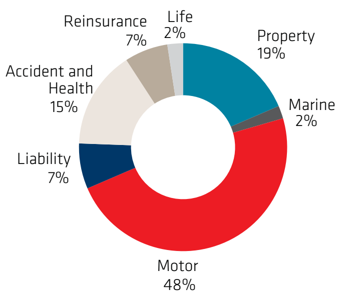
I would like to express my gratitude to the employees of VÍS and the Board for the work we did together during the year. VÍS has a great team of experienced employees that form the foundation of Iceland's most dynamic insurance company.

Performance of the insurance sectors

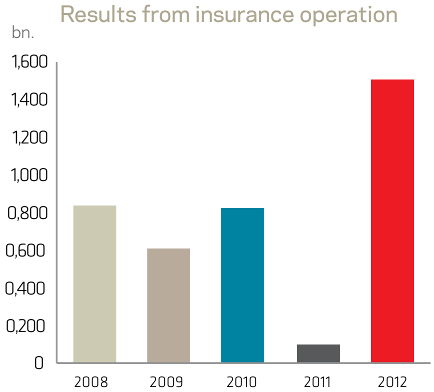
Premiums earned by branches



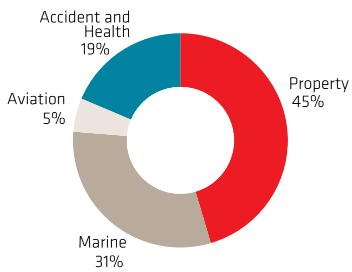
Losses incurred by branches



Results from insurance operation



International business, premiums written by insurance sectors



Property insurance

Premiums earned totalled ISK 4,149 million, an increase of 0.9% from 2011. Profit in this sector amounted to ISK 924 million, which exceeded the company's expectations. This good result may in part be attributed to positive performance in fire insurance. No major claims were made on the company during the year.

Marine insurance

Premiums earned during the year totalled ISK 514 million, a decrease of 3.5% from 2011. Profit in the sector totalled ISK 102 million, which exceeded the company's expectations. The profit may in part be traced to good performance in cargo insurance.

Mandatory motor insurance

Premiums earned amounted to ISK 5,166 million, which is an increase of 4.7% over the previous year. Profit in the sector totalled ISK 300 million, a reversal from the previous year and in line with expectations.

Other motor insurance

Premiums earned totalled ISK 2,318 million, a decrease of 0.2% from 2011. Good weather conditions contributed to a lower claims ratio during the year. Profit for the sector amounted to ISK 392 million, which exceeds company expectations.

Liability insurance

Premiums earned amounted to ISK 891 million, which is a 1.3% increase from the year before. Performance for the year is under expectations, resulting in a loss in this sector of ISK 69 million. Heavy claims in professional indemnity insurance, is the primary reason for the loss.

Personal accident insurance

Premiums earned from personal accident insurance totalled ISK 1,803 million, a 0.1% drop from 2011. Performance is considerably under expectations, with a negative result amounting to ISK 341 million. The outcome is mainly the result of family accident insurance and international accident insurance.

International reinsurance

Premiums earned from international reinsurance were ISK 1,006 million, a 2.9% increase from 2011. Profit totalled ISK 15 million, which is under company expectations.

Life and critical illness insurance

Premiums earned for the period 1 April to 31 December 2012 were ISK 615 million, which is a 0.8% increase compared with the same period in 2011. Profit for the period amounted to ISK 174 million, which is in line with expectations.

Note: The parent company acquired Lífís - Líftryggingafélag Íslands on 1 April 2012. Operations of Lífís for the period 1 April to 31 December 2012 are included in the Consolidated Financial Statements.

Financial Statements 2012

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Vátryggingafélag Íslands hf., which comprise the endorsement of Board of Directors and the CEO, statement of financial position as at December 31, 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's and the Board of directors Responsibility for the Financial Statements

Management and the board of directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in Iceland and for such internal control as management and the board of directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles in Iceland

Kópavogur, 28 February 2013

Deloitte ehf.

Hilmar A. Alfreðsson
State authorized public accountant

Gunnar Þorvarðarson
State authorized public accountant

Endorsement by the Board of Directors and CEO

The Consolidated Financial Statements for Vátryggingafélag Íslands hf. consists of financial statements for the Company and its subsidiaries, together "the Group".

Vátryggingafélag Íslands hf. (VÍS) was founded on 5 February 1989 by Brunabótafélag Íslands and Samvinnutryggingar and operates according to Insurance companies Act and Companies Act. The Group operates in the fields of insurance, life-insurance and finance.

On March 19th 2012 a Purchase agreement was signed with the parent company of VÍS, Klakki ehf. for the purchase of 99.93% shares in Líftryggingafélag Íslands hf. (LÍFÍS), a sister company of VÍS. The value of LÍFÍS was assessed by a third party and the contract was based on that assessment. The purchase price was ISK 3.181 million. LÍFÍS is included in the Group from 1 April 2012. See note nr. 33.

Öryggismiðstöð Íslands hf. was included in the Group until 1 December, when VÍS sold its 83% share in the company. The results of the company and the profit of the sale are presented as discontinued operations in the income statement.

Profit for the year, according to the Income Statement, amounted to ISK 3,024 million. According to the Balance Sheet total assets amounted to ISK 43.452 million and total equity amounted to ISK 14.470 million at the end of the year.

The VÍS Group is exposed to various risks in its operations. The Group´s risk management aims to identify and minimize this risk. See notes nr. 31.3-31.14

At year end the number of shareholders were 2, same as at the beginning of the year. At year end one shareholder holds more than 10% of the shares, Klakki ehf. with 99.97% of the shares.

The Insurance companies Act and Financial statements Act discuss corporate governance rules which the Group is compliant with. The Group furthermore seeks to follow rules on corporate governance issued by the Icelandic Chamber of Commerce, Icelandic Stock Exchange OMX and Confederation of Icelandic Employers. The Board of Directors has set guidelines and definitions on its authority, activity and communication with the CEO. Internal control is inherent in the Groups work procedures. An operation of Internal audit department is a part of the Group's organization and a part of its control environment. The Board held 19 meetings during the year. In case of absence of members, alternative members attended board meetings. The Audit committee held 9 meetings during the year with full attendance.

The Board of Directors recommend that no dividend will be paid to shareholders for the year 2012.

The consolidated financial statements for the year ended 31 December 2012, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Board of Directors and the CEO of Vátryggingafélag Íslands hf. are of the opinion that the financial statements for the year 2012 contain all the information necessary to form a clear picture of the Group'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 consolidated financial statements for the year 2012 with their signature.

Reykjavík, 28 February 2013

Board of Directors

Benedikt Jóhannesson
Chairman

Magnús Scheving Thorsteinsson

Guðrún Þorgeirsdóttir

Helga Jónsdóttir

Ingi Rafn Jónsson

CEO

Sigrún Ragna Ólafsdóttir

Consolidated Statement of Comprehensive Income and Income Statement for the year 2012

	Notes	Consolidated 2012	Consolidated 2011
Premiums earned		16.460.206	15.560.559
Premiums earned, reinsurers' share		(589.100)	(510.462)
Premiums earned, net of reinsurance	7	**15.871.106**	**15.050.097**
Investment income	11	2.858.556	1.799.938
Net gain on investments at fair value		1.077.295	209.415
Investment income		**3.935.851**	**2.009.353**
Other operating income		131.549	115.600
Total income		**19.938.505**	**17.175.050**
Claims incurred		(12.112.848)	(12.771.825)
Claims incurred, reinsurers' share		45.755	22.224
Claims incurred, net of reinsurance	8	**(12.067.092)**	**(12.749.601)**
Operating expenses	9	(4.044.179)	(3.607.862)
Investment expenses	12	(1.503)	(2.416)
Impairment of receivables	13	(143.567)	(196.503)
Expenses total		**(16.256.341)**	**(16.556.382)**
Profit before taxes		**3.682.164**	**618.668**
Income tax expense	14	(950.013)	(207.496)
Profit for the year from continuing operations		**2.732.151**	**411.172**
Discontinued operations	15	292.635	(3.363)
Profit for the year		**3.024.786**	**407.809**
Owners of the parent		3.015.709	408.214
Non-controlling interests		9.077	(405)
Total profit		**3.024.786**	**407.809**
Earnings per share:			
From continuing operations:			
Earnings per share	16	1,05	0,16
From continuing and discontinued operations:			
Earnings per share	16	1,16	0,16

Consolidated account

Amounts in thousands ISK

Consolidated Statement of financial position at 31 December 2012

Assets	Notes	Consolidated 31.12.2012	Consolidated 31.12.2011
Property, plant and equipment	17	257.536	651.968
Goodwill	18	474.599	199.938
Other intangible assets	19	507.120	0
Financial assets measured at fair value	20	25.953.126	24.300.522
Held-to-maturity investments	20	4.182.536	0
Secured loans and other loans	20	252.108	1.509.060
Fjárfestingar v.líftrygginga með áhættu líftryggingataka	21	1.185.987	0
Deferred tax assets	14	40.859	515.571
Inventories		0	80.394
Accounts receivables	22	4.797.117	4.603.641
Reinsurance assets	23	566.721	585.601
Other receivables	24	915.937	1.127.869
Cash and cash equivalents	25	4.318.165	4.615.086
Total assets		**43.451.812**	**38.189.650**
Equity			
Share capital	26	2.502.481	2.602.481
Capital reserves		625.620	456.130
Retained earnings		11.342.036	8.495.817
Equity attributable to the owners of the company		14.470.137	11.554.428
Non-controlling interests		0	29.448
Total equity		**14.470.137**	**11.583.876**
Liabilities			
Technical provision	28	26.203.602	24.792.176
Investment for the benefit of life-insurance policyholders who bear the investment risk	21	1.185.987	0
Accounts payable	29	1.167.322	932.191
Borrowings	30	0	241.460
Other liabilities	29	424.764	639.947
Total liabilities		**28.981.675**	**26.605.774**
Total equity and liabilities		**43.451.812**	**38.189.650**

Amounts in thousands ISK

Consolidated Statement of Changes in Equity for the year 2012

	Share capital	Capital reserves	Retained earnings	Attributable to the owners of the parent	Non-controlling interests	Total
Equity 1.1.2011	2.602.481	456.130	8.087.603	11.146.214		11.146.214
Investment in subsidiaries					29.853	29.853
Total profit			408.214	408.214	(405)	407.809
Equity 1.1.2012	2.602.481	456.130	8.495.817	11.554.428	29.448	11.583.876
Subsidiaries sold					(38.525)	(38.525)
Capital reduction	(100.000)			(100.000)		(100.000)
Total profit			3.015.709	3.015.709	9.077	3.024.786
Statutory reserve		169.490	(169.490)	0		0
Equity 31.12.2012	**2.502.481**	**625.620**	**11.342.036**	**14.470.137**	**0**	**14.470.137**

Amounts in thousands ISK

Consolidated Statement of Cash Flow for the year 2012

Operating activities	Notes	Consolidated 2012	Consolidated 2011
Profit for the year		3.024.786	407.809
Items that do not affect cash movements:			
Investment income and expenses		(2.829.980)	(1.822.060)
Net gain on investments at fair value		(1.077.295)	(209.415)
Impairment and depreciation of goodwill		0	66.211
Pension obligation		764	0
Depreciation		307.311	189.561
Loss on sale of property and equipment		(2.725)	(5.360)
Movements in working capital:			
Financial assets, (increase)		(609.132)	(401.325)
Secured loans and other loans, decrease		1.256.952	208.591
Deferred tax assets, decrease (increase)		353.145	(59.877)
Inventories, (increase) decrease		(14.699)	1.434
Accounts receivables, (increase)		(442.215)	(286.388)
Reinsurance assets, decrease		162.839	49.335
Other receivables, decrease		215.053	631.505
Technical provision (non-life), increase		617.987	2.177.098
Technical provision (life), (decrease)		(107.976)	0
Accounts payable, increase		536.692	40.031
Other liabilities, (decrease) increase		(10.472)	23.898
Cash generated (to) operations		**1.381.035**	**1.011.048**
Interest revenue		2.506.216	1.825.836
Interest paid		(11.921)	(12.099)
Payments of tax		(352.909)	(123.137)
Net cash from (to) operating activities		**3.522.420**	**2.701.647**

Investing activities	Notes	Consolidated 2012	Consolidated 2011
Held-to-maturity investments		(4.125.779)	0
Property and equipment		(102.667)	(129.064)
Net cash outflow on acquisition of subsidiary	33	(36.759)	(274.836)
Net cash inflow on disposal of subsidiary	33	523.544	0
Pension obligation, paid		(3.005)	0
		(3.744.667)	**(403.900)**

Financing activities	Notes	Consolidated 2012	Consolidated 2011
Repayments of borrowings		(42.077)	(17.509)
Capital reduction		(100.000)	0
Increase in current liabilities		11.058	0
		(131.019)	**(17.509)**
Increase (decrease) in cash and cash equivalents		(353.265)	2.280.239
Cash and cash equivalents at beginning of the year		4.615.086	2.300.843
Effects of foreign exchange rate changes		56.344	34.004
Cash and cash equivalents at year-end		**4.318.165**	**4.615.086**

Amounts in thousands ISK

Notes

1. General information
Vátryggingafélag Íslands hf. (the Group) is a limited company and operates subject to law no. 56/2010 concerning insurance operations and law no. 2/1995 concerning limited companies. Company headquarters are located in Ármúla 3, Reykjavík. Its Parent company is Klakki ehf.

The Consolidated Financial Statements for Vátryggingafélags Íslands hf. consists of financial statements for the Company and its subsidiary Líftryggingafélag Íslands hf. The Group sold its shares in Öryggismiðstöð Íslands hf. during the year and the company's financial result is therefore reported under discontinued operations in the income statement. The Group operates in the fields of insurance, life-insurance and finance

2. Adoption of new and revised Standards
The Group has adopted International Financial Reporting Standards, as adopted by the EU at the end of 2012, revised and new standards. The Group has not implemented new and revised standards and interpretations that have been issued but not yet effective. It is management's assessment that 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 Standards) as adopted by the EU.

3.2 Basis of preparation
The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are presented in Icelandic Krona (ISK), rounded to nearest thousand.

The principal accounting policies are set out below.

3.3 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity. Where minority interest amounts are immaterial, it is not specifically shown in the financial statements.

3.4 Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, (see below). All other subsequent changes in fair value of contingent assets and liabilities are adjusted in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is from date of purchase to the date the Group has received adequate information about conditions at the date of purchase, which cannot exceed one year from the acquisition date.

3.5 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

3.6 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 form the part of premiums due to insurance risk during the period which belongs to unexpired insurance policies at year end.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied. The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The amount of revenue can be measured reliably. It is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 Group 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 Group 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.

3.7 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.

3.8 Insurance contracts

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

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 compensates the insured own bodily injuries in terms of the insurance contracts. Property insurance contracts mainly compensate the Group'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 Group assesses, at the end of the fiscal year, whether the recorded insurance liability can carry out the Group´s estimated obligations by assessing future cash flows of the insurance liability. All changes in the insurance liability are 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 Group's risks. Reinsurance contracts can be either proportional or carry the entire risk in the case of a damage exceeding a fixed damage cost.

Claims on 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.

3.9 Foreign currencies
The individual financial statements of the Group 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

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

3.11 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 Group'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.

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.

3.12 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 Group 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 revalued 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.

3.13 Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group 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 Group 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. It is not permitted to reverse impairment of goodwill.

3.14 Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.15 Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group 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 Group 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 Group 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 Group'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.

3.16 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 Group 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 Group 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 Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group'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 Group 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 Group that are traded in an active market are classified as AFS and are stated at fair value. The Group 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 Group'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 Group 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 Group 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.

3.17 Financial liabilities and equity instruments issued by the Group

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 Group are recognised at the proceeds received, net of direct issue costs.

Compound instruments
The component parts of compound instruments (convertible bonds) issued by the Group 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 Group 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 Group'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 Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

4. Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group'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 on-going 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, see notes nr. 20
- Impairment of receivables, see note nr. 13
- Technical provision see, note nr. 28

5. Change in financial reporting presentation
The Group changed its presentation of the income statement and statement of comprehensive income. It is management's belief that this presentation gives a better view of the Group's operations. Impairment of other assets are now included in net gain on investments at fair value but were previously reported under impairment. Fair value changes of financial assets are now reported under net gain on investments at fair value but were previously part of investment

income. At the disposal of shares in Öryggismiðstöð Íslands hf. during the year the company's financial result was transferred to discontinued operations in the income statement, see note 15

The table below shows how the income statement would have been in accordance with previous year presentation.

	2012	2011
Investment income in accordance with previous year presentation.	4.051.003	3.022.302
Investment income due to changes in fair value	(1.192.447)	(1.222.363)
Investment income as displayed in current presentation	**2.858.556**	**1.799.938**
Net gain on investments at fair value in accordance with previous year presentation	165.183	(408.041)
Impairment of financial assets	(280.335)	604.907)
Investment income due to changes in fair value	1.192.447	1.222.363
Net gain on investments at fair value as displayed in current presentation	**1.077.295**	**209.415**
Impairment in accordance with previous year presentation	(423.902)	(801.410)
Impairment of financial assets	280.335	604.907
Impairment of account receivables as displayed in current presentation	**(143.567)**	**(196.503)**
Other operating income in accordance with previous year presentation	115.982	103.421
Income from children car seats	15.567	12.179
Other operating income as displayed in current presentation	**131.549**	**115.600**
Investment expenses in accordance with previous year presentation	(7.091)	(5.130)
Bank fee	5.588	2.714
Investment expenses as displayed in current presentation	**(1.503)**	**(2.416)**
Operating expenses in accordance with previous year presentation	(4.023.024)	(3.592.969)
Cost due to children car seats	(15.567)	(12.179)
Bank fee	(5.588)	(2.714)
Operating expenses as displayed in current presentation	**(4.044.179)**	**(3.607.862)**

6. Segment reporting

The following are the Group´s segments of operation: Insurance operation, Life-insurance operation and Financial operation.

Consolidated Financial Statement

Results of operations of segments for 2012 is as following:

	Insurance operation	Life-insurance operation	Investment operation	Total
Premiums earned	15.845.230	614.975	0	16.460.205
Reinsurers´ share	(487.424)	(101.675)	0	(589.099)
Other income	131.549		0	131.549
Investment income	1.085.860	26.119	2.823.872	3.935.851
Total income	**16.575.214**	**539.419**	**2.823.872**	**19.938.505**
Claims incurred	(11.819.056)	(293.792)	0	(12.112.848)
Claims incurred, reinsurers´ share	(53.087)	98.842	0	45.755
Operating expenses	(3.380.369)	(170.047)	(493.763)	(4.044.179)
Written off claims / financial assets	0	0	(143.567)	(143.567)
Investment expenses	0	0	(1.503)	(1.503)
Operating profit of Segment	**1.322.704**	**174.422**	**2.185.039**	**3.682.165**

Consolidated account Amounts in thousands ISK

	Insurance operation	Life-insurance operation	Investment operation	Total
Income Tax				(950.013)
Profit for the year from discontinued operations				292.635
Net earnings for the year				3.024.786

Depreciation in the insurance segment amounted to 136.4 million during 2012. Depreciation in the financial segment amounted to 1.8 million. Investments in the insurance segment amounted to 21.5 million during 2012.

Assets and liabilities of Segments December 31, 2012 is as following:

Assets	Insurance operation	Life-insurance operation	Investment operation	Total
Loans and other investments	27.700.996	2.260.778	425.996	30.387.770
Investment for the benefit of life-insurance policyholders who bear the investment risk	0	1.185.987	0	1.185.987
Reinsurance assets	430.746	125.707	0	556.453
Other assets	7.637.912	97.498	3.586.192	11.321.602
Segments´ assets	**35.769.654**	**3.669.970**	**4.012.188**	**43.451.812**
Liabilities				
Technical provisions	25.410.163	793.439	0	26.203.602
Technical provision for life-insurance policies where the investment risk is born by the policyholders	0	1.185.987	0	1.185.987
Other liabilities	1.520.632	71.454	0	1.592.086
Segments´ liabilities	**26.930.795**	**2.050.880**	**0**	**28.981.675**

Consolidated Financial Statement

Results of operations of segments for 2011 is as following:

	Insurance operation	Investment operation	Total
Premiums earned	15.560.559	0	15.560.559
Reinsurers´ share	(510.462)	0	(510.462)
Other income	115.600	0	115.600
Investment income	923.565	1.085.788	2.009.353
Total income	**16.089.262**	**1.085.788**	**17.175.050**
Claims incurred	(12.771.825)	0	(12.771.825)
Claims incurred, reinsurers´ share	22.224	0	22.224
Operating expenses	(3.244.655)	(363.206)	(3.607.862)
Written off claims / financial assets	0	(196.503)	(196.503)
Investment expenses	0	(2.416)	(2.416)
Operating profit of Segment	**95.006**	**523.662**	**618.668**
Income tax			(207.496)
Profit for the year from discontinued operations			(3.363)
Net earnings for the year			407.809

Depreciation in the insurance segment amounted to 131.1 million during 2011. Depreciation in the financial segment amounted to 2.1 million. Investments in the insurance segment amounted to 54.2 million during 2011.

Amounts in thousands ISK

Assets and liabilities of Segments December 31, 2011 is as following:

Assets	Insurance operation	Investment operation	Other operation	Total
Loans and other investments	22.740.231	567.520	0	23.307.751
Reinsurance assets	551.872	0	0	551.872
Other assets	9.144.707	4.220.215	965.105	14.330.027
Segments´ assets	**32.436.810**	**4.787.735**	**965.105**	**38.189.650**
Liabilities				
Technical provisions	24.792.176	0	0	24.792.176
Other liabilities	1.243.390	0	570.208	1.813.598
Segments´ liabilities	**26.035.566**	**0**	**570.208**	**26.605.774**

Consolidated Financial Statement

Summary of insurance classes 2012:

	Property insurance	Marine insurance	Mandatory motor insurance	Other motor insurance	General liability insurance	Accident and Health insurance
Premiums earned	4.148.696	513.553	5.166.074	2.317.732	891.059	1.802.611
Claims incurred	(2.243.787)	(241.580)	(4.335.480)	(1.479.340)	(854.648)	(1.847.487)
Operating expenses	(891.931)	(107.392)	(1.094.693)	(492.659)	(189.673)	(364.765)
Reinsurance cost, net	(281.500)	(81.687)	(16.399)	(1.522)	(57.521)	(101.061)
Investment income	131.204	19.505	510.144	47.937	141.407	169.313
Other income	61.679	0	69.870	0	0	0
Profit (loss)	**924.361**	**102.399**	**299.516**	**392.148**	**(69.376)**	**(341.389)**

	Life-insurance individuals	Health and critical illness insurance	Total direct insurance	Total reinsurance	Total
Premiums earned	359.281	255.694	15.454.700	1.005.506	16.460.206
Claims incurred	(185.009)	(108.783)	(11.296.114)	(816.734)	(12.112.848)
Operating expenses	(99.458)	(70.589)	(3.311.160)	(239.255)	(3.550.415)
Reinsurance cost, net	2.199	(5.032)	(542.523)	(821)	(543.344)
Investment income	11.356	14.763	1.045.629	66.350	1.111.979
Other income	0	0	131.549	0	131.549
Profit (loss)	**88.369**	**86.053**	**1.482.081**	**15.046**	**1.497.127**

Amounts in thousands ISK

Consolidated Financial Statement

Summary of insurance classes 2011:

	Property insurance	Marine insurance	Mandatory motor insurance	Other motor insurance	General liability insurance
Premiums earned	4.113.666	532.472	4.932.060	2.321.225	880.198
Claims incurred	(2.785.896)	(429.864)	(4.809.155)	(1.621.369)	(609.641)
Operating expenses	(838.274)	(107.054)	(948.209)	(446.210)	(167.356)
Reinsurance cost, net	(235.966)	(82.692)	(26.694)	(1.518)	(71.072)
Investment income	111.306	18.987	429.393	43.627	122.029
Other income	58.371	1.512	43.539	0	0
Profit (loss) from insurance	**423.207**	**(66.639)**	**(379.066)**	**295.755**	**154.158**

	Accident and Health insurance	Total direct insurance	Total reinsurance	Total
Premiums earned	1.804.189	14.583.810	976.749	15.560.559
Claims incurred	(1.684.241)	(11.940.166)	(831.658)	(12.771.824)
Operating expenses	(490.624)	(2.997.727)	(234.749)	(3.232.476)
Reinsurance cost, net	(69.912)	(487.854)	(385)	(488.239)
Investment income	144.284	869.626	53.939	923.565
Other income	0	103.422	0	103.422
Profit (loss) from insurance	**(296.304)**	**131.111**	**(36.104)**	**95.007**

7. Premiums earned

	2012	2011
Premiums written	16.105.406	15.479.624
Premiums written, reinsurers' share	(575.131)	(490.021)
Change in unearned premiums	354.800	80.935
Change in unearned premiums, reinsurers' share	(13.968)	(20.441)
	15.871.106	**15.050.097**

8. Claims incurred

	2012	2011
Claims paid	(11.247.986)	(10.513.791)
Claims paid, reinsurers' share	171.164	68.344
Change in claims provision	(864.862)	(2.258.034)
Change in claims provision, reinsures' share	(125.409)	(46.120)
	(12.067.092)	**12.749.601)**

Amounts in thousands ISK

9. Operating expense

	2012	2011
General and administrative expense	1.765.784	1.714.496
Salaries and salaries related expenses	2.083.843	1.760.140
Depreciation	194.552	133.226
	4.044.179	**3.607.862**
Salaries and salaries related expenses are as follows:		
Salaries	1.658.534	1.463.105
Pension	160.325	139.681
Salaries related expenses	163.567	157.354
Special tax on financial institutions	101.417	0
	2.083.843	**1.760.140**
Average number of full time equivalent employees	228	234

Salaries and benefits to the CEO and Board of Directors:	2012	2011
Sigrún Ragna Ólafsdóttir, CEO	32.300	7.717
Guðmundur Örn Gunnarsson, former CEO	0	30.362
Benedikt Jóhannesson, Chairman of the Board	6.000	0
Axel Gíslason, former Chairman of the Board	1.700	7.155
Helga Jónsdóttir, Board member	4.990	4.383
Guðrún Þorgeirsdóttir, Board member	2.200	3.500
Magnús Scheving Thorsteinsson, Board member	1.600	0
Ingi Rafn Jónsson, Board member	1.600	0
Guðmundur Pálsson, Board member	1.825	3.415
Hilmar Pétur Valgarðsson, Board member	850	3.383
Ólafur Nilsson, Chairman of the audit committee	1.680	960
Klakki ehf. for employees acting as board members	7.185	0
Other alternative Board members and audit committee representatives	3.715	3.369
Directors were 6 in the year 2012 and 2011	100.260	88.266

Stjórnendur njóta engra annarra kjara en launa og þóknana.

10. Auditor's fee

	2012	2011
Audit of the Financial Statements	27.345	16.978
Review of Interim Financial Statements	6.237	2.232
Other service	5.547	3.652
	39.129	**22.862**
Fees to others than the auditors of the Group	4.983	2.210

Consolidated account Amounts in thousands ISK

11. Investment income

	2012	2011
Interest income from deposits	202.625	160.243
Interest income from bonds	1.326.599	1.200.284
Dividends from shares	24.141	25.140
Exchange rate difference	945.272	81.035
Other interest income	359.919	333.235
	2.858.556	**1.799.938**

12. Investment expenses

	2012	2011
Interest expenses on short term liabilities	(1.503)	(2.416)

13. Impairment

	2012	2011
Written off claims	(243.567)	(206.503)
Impairment of account receivables	100.000	10.000
	(143.567)	**(196.503)**

14. Income tax

14.1 Current tax

Income tax is recognised in the income statement and the charged amount is ISK 950 million.

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

	2012		2011	
	Amount	*%*	*Amount*	*%*
Profit before taxes	3.682.164		618.668	
Tax rate	736.433	20,0%	123.734	20,0%
Special tax on financial institutions	72.869	2,0%	0	0,0%
Dividend, gained	(4.828)	-0,1%	0	0,0%
Change in fair value of financial assets	(44.184)	-1,2%	83.763	13,5%
Impairment of goodwill	45.000	1,2%	0	0,0%
Other items	144.723	3,9%	0	0,0%
Income tax according to the Income Statement	**950.013**	**25,8%**	**207.496**	**33,5%**

14.2 Deferred tax

Deferred tax assets is as following:

	2012	2011
Deferred tax assets at January 1	515.571	397.600
Due to purchase/sale of subsidiaries	(18.443)	42.291
Due to business relationships that are recognized in the Group	(112.693)	0
Income tax for the period	(950.013)	(207.496)
Joint taxation with parent company	606.438	283.177
Deferred tax assets at December 31	**40.859**	**515.571**

Amounts in thousands ISK

Deferred tax assets is as following:

	31.12.2012	31.12.2011
Property and equipment	(24.510)	(32.985)
Business relationships	(101.424)	0
Allowance for doubtful financial assets	302.730	513.344
Other items	(135.937)	29.865
Tax loss carryforward	0	5.347
	40.859	**515.571**

15. Discontinued operation

On December 4th 2012 the Group sold its 83% share in Öryggismiðstöð Íslands hf.

Results of operations from Öryggismiðstöð Íslands hf. for 2012 is as following:

	2012	2011
Total income	1.750.247	839.160
Total expenses	(1.687.551)	(826.722)
Profit before taxes	62.698	12.440
Income tax expense	(12.412)	(15.803)
	50.286	**(3.363)**
Gain from sale of discontinued operations	242.349	0
	292.635	**(3.363)**

Cash flows from discontinued operations

	2012	2011
Net cash inflows from operating activities	129.290	135.443
Net cash outflows from investing activities	(91.174)	(95.930)
Net cash outflows from financing activities	(31.019)	(17.509)
Net cash inflow	**7.097**	**22.004**

16. Earnings per share

Earnings per share is calculated as follows:

	2012	2011
Profit attributable to shareholders of the parent from continuing operations	2.732.151	411.172
Profit attributable to shareholders of the parent from cont. and discontinued operations	3.015.709	408.214
Average number of shares during the year	2.597.549	2.602.481
Earnings per share from continuing operations	1,05	0,16
Earnings per share from continuing and discontinued operations	1,16	0,16

No convertible bonds were issued and no share-based payments to employees were in the year 2012. Therefore diluted earnings per share are the same as earnings per share.

Amounts in thousands ISK

17. Property, equipment and depreciation

Cost of assets	Buildings and land	Furniture, equipment and vehicle	Total
Balance at January 1, 2011	122.365	562.283	684.648
Investment in subsidiaries	0	810.372	810.372
Additions	0	139.064	139.064
Disposals	(50.696)	(10.211)	(60.907)
Balance at January 1, 2012	71.669	1.501.508	1.573.177
Sale of subsidiaries	0	(895.197)	(895.197)
Additions	0	21.494	21.494
Disposals	0	(13.785)	(13.785)
Balance at December 31, 2012	**71.669**	**614.020**	**685.689**

Depreciation			
Balance at January 1, 2011	80.716	143.782	224.498
Investment in subsidiaries	0	563.417	563.417
Depreciation expense	2.106	187.455	189.561
Disposals	(46.056)	(10.211)	(56.267)
Balance at January 1, 2012	36.765	884.443	921.209
Sale of subsidiaries	0	(619.752)	(619.752)
Depreciation expense	1.849	136.356	138.205
Disposals	0	(11.508)	(11.508)
Balance at December 31, 2012	**38.615**	**389.538**	**428.153**

Book value			
Balance at January 1, 2012	34.904	617.065	651.968
Balance at December 31, 2012	33.054	224.481	257.536

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

Buildings	33 years
Equipment	2 - 5 years
Vehicles	7 years

Real estate and insurance valuation 31.12.2012 specifies as following:

	Real estate valuation	Fire insurance valuation
Buildings and land	59.104	166.500

18. Goodwill

	2012	2011
Balance at January 1, 2012	199.938	0
Due to sale of subsidiary	(199.938)	0
Due to purchase of subsidiary	474.599	256.548
Additions	0	9.602
Depreciation expense	0	(1.156)
Impairment	0	(65.054)
Balance at December 31, 2012	**474.599**	**199.938**

Amounts in thousands ISK

19. Other intangible assets

Cost of assets	Business relationships
Balance at January 1, 2012	0
Additions	563.467
Balance at December 31, 2012	**563.467**
Depreciation	
Balance at January 1, 2012	0
Additions	56.347
Balance at December 31, 2012	**56.347**
Book value	
Balance at January 1, 2012	0
Balance at December 31, 2012	**507.120**
Depreciation rate	10%

20. Financial assets

	31.12.2012	31.12.2011
Financial assets measured at fair value		
Shares in other companies	1.887.112	1.737.563
Other financial assets	24.066.014	22.562.959
	25.953.126	**24.300.522**
Held-to-maturity investments	4.182.536	0
Secured loans and other loans		
Securities	252.108	1.509.060
Total financial assets	**30.387.770**	**25.809.583**

Financial assets measured at fair value.

Shares in other companies:		
Listed on the Icelandic stock exchange	956.029	336.028
Listed in foreign stock exchanges	357.637	555.995
Other companies	573.446	845.540
	1.887.112	**1.737.563**

Consolidated account Amounts in thousands ISK

	31.12.2012	31.12.2011
Market securities:		
Listed government securities	17.004.955	17.048.894
Other listed securities	3.117.926	3.546.501
Unlisted government securities	104.676	106.005
Other unlisted securities	3.838.456	1.861.559
	24.066.014	**22.562.959**
Held-to-maturity investments		
Listed government securities	**4.182.536**	**0**
Secured loans and other loans:		
Mortgage loans	216.964	378.194
Secured loans	15.440	40.749
Other loans	19.704	1.090.119
	252.108	**1.509.061**
Total financial assets	**30.387.770**	**25.809.583**

21. Life-insurance policies where the investment risk is born by the policyholders

The Company has offered life-insurance policies which consist of life insurances and an investment fund. The cost of the life insurance decreases as the amount in the investment fund rises and when the amount in the investment fund exceeds the cost of the life-insurance, the cost becomes nil. In these life-insurance policies the investment risk is born by the policyholders.

22. Accounts receivable

	31.12.2012	31.12.2011
Accounts receivable domestic operations	3.702.461	3.585.917
Accounts receivable foreign operations	1.078.894	742.594
Other receivables	0	248.301
Receivables from related parties	15.761	26.829
	4.797.117	**4.603.641**

Reserves for bad debt		
Balance at the beginning of the year	395.229	418.425
Due to investments in subsidiaries	13.196	(16.196)
Allowance for doubtful debt	143.567	199.503
Bankrupt and uncollectable	(252.802)	(206.503)
Balance at the end of the year	**299.190**	**395.229**

Amounts in thousands ISK

23. Reinsurance assets

	31.12.2012	31.12.2011
Reinsurers' share in unearned premiums	76.924	16.125
Reinsurers' share in claims provision	479.530	535.747
Debtors arising out of reinsurance operations	10.267	33.729
	566.721	**585.601**

24. Other receivables

	31.12.2012	31.12.2011
Prepaid taxes	241.312	349.670
Retention	441.762	367.823
Accrued interest receivables and prepaid expenses	28.048	26.222
Restricted cash receivables due to foreign trade	204.816	384.154
	915.937	**1.127.869**

25. Cash and cash equivalent

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

	31.12.2012	31.12.2011
Cash	3.339	5.210
Bank deposits in Icelandic krona	3.423.878	3.709.256
Bank deposits in foreign currency	890.948	900.621
	4.318.165	**4.615.086**

26. Share Capital

Vátryggingafélag Íslands hf. share capital.

	Shares	Ratio
Authorised Share Capital	2.502.757	100,00%
Own shares	(277)	(0,01%)
Share Capital according to annual report	**2.502.481**	**99,99%**

One vote is attached to each Krona of share at nominal value. The share capital is fully paid.

Changes in Share Capital is as following:

	Share Capital	Shares
At January 1, 2012	2.602.481	2.602.481
Capital reduction	(100.000)	(100.000)
At December 31, 2012	**2.502.481**	**2.502.481**

Amounts in thousands ISK

27. Solvency

According the Act on Insurance Activities, the minimum solvency of the Group at the year-end was ISK 3.058 million, calculated solvency ISK 14.849 million and solvency ratio 4,9. By considering cross-financing within the Group adapted solvency of the Group is calculated. Adapted solvency of the Group at the year-end was ISK 13.466 million and adapted solvency ratio 3,8. Adapted solvency of the Company in 2011 was ISK 10.712 million and adapted solvency ratio 3,5. Difference on calculated solvency and book value of equity specifies as follows:

	31.12.2012	31.12.2011
Equity of Vátryggingafélag Íslands hf. according to parent Balance Sheet	14.849.262	11.554.428
Dividend paid	0	0
Solvency	**14.849.262**	**11.554.428**
The minimum solvency	3.058.238	3.058.238
Solvency ratio	4,9	3,8
Adapted solvency ratio for the consolidation		
Equity according to Balance Sheet	14.470.137	11.554.428
Goodwill and other intangible assets	(981.719)	(199.938)
Intra group financing	(22.337)	(642.236)
Dividend paid	0	0
Adapted solvency ratio	**13.466.081**	**10.712.254**
Calculated adapted minimum solvency ratio	3.588.382	3.058.238
Solvency ratio	3,8	3,5

28. Technical provisions

	31.12.2012	31.12.2011
Technical provisions		
Claims reported	17.367.810	16.058.468
Claims incurred but not reported	3.446.782	3.396.929
Claims outstanding	20.814.592	19.455.397
Unearned premiums	5.389.010	5.336.779
Technical provisions total	**26.203.602**	**24.792.176**
Reinsurers' share:		
Claims reported	419.570	473.214
Claims incurred but not reported	59.960	62.533
Claims outstanding	479.530	535.747
Unearned premiums	76.923	16.125
Reinsurers' share total	**556.453**	**551.872**
Technical provisions net of reinsurance:		
Claims reported	16.948.240	15.585.254
Claims incurred but not reported	3.386.822	3.334.396
Claims outstanding	20.335.062	18.919.650
Unearned premiums	5.312.087	5.320.654
Technical provision net of reinsurance total	**25.647.149**	**24.240.304**

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 2012 and 2011 is immaterial.

Amounts in thousands ISK

Movements in technical provisions during the year:

	2012			2011		
	Total	Reinsurers' share	For own account	Total	Reinsurers' share	For own account
Claims outstanding:						
Reported claims	16.058.468	(473.214)	15.585.254	13.867.773	(466.613)	13.401.160
Incurred but not reported	3.396.929	(62.533)	3.334.396	3.329.590	(115.254)	3.214.336
VÍS 1.1.	19.455.397	(535.747)	18.919.650	17.197.363	(581.867)	16.615.496
LÍFÍS 1.1.	485.436	(68.262)	417.174			
Total at beginnig of year	**19.940.833**	**(604.009)**	**19.336.824**			
Claims paid during the year:						
arising from prior years	(6.674.637)	105.545	(6.569.092)	(5.759.484)	60.902	(5.698.582)
Increase in liabilities:						
arising from current year	8.008.801	(200.723)	7.808.078	8.741.813	(82.848)	8.658.965
arising from prior years	(460.405)	219.657	(240.748)	(724.295)	68.066	(656.229)
Total at the end of year	**20.814.592**	**(479.530)**	**20.335.062**	**19.455.397**	**(535.747)**	**18.919.650**

	2012			2011		
	Total	Reinsurers' share	For own account	Total	Reinsurers' share	For own account
Reported claims	17.367.810	(419.570)	16.948.240	16.058.468	(473.214)	15.585.254
Incurred but not reported	3.446.782	(59.960)	3.386.822	3.396.929	(62.533)	3.334.396
End of the year	**20.814.592**	**(479.530)**	**20.335.062**	**19.455.397**	**(535.747)**	**18.919.650**
Provision for unearned premiums:						
At beginning of year	5.647.258	(74.053)	5.573.205	5.417.714	(36.566)	5.381.148
Changes during the year	(258.248)	(2.870)	(261.118)	(80.935)	20.441	(60.494)
End of the year	**5.389.010**	**(76.923)**	**5.312.087**	**5.336.779**	**(16.125)**	**5.320.654**

Risks related to Non-life insurance, especially accident insurance, depend on many variables which complicate sensitivity analysis. The Group uses statistical methods based on assumptions during risk assessment, in order to estimate the ultimate cost of claims.

Basic claims outstanding, is an estimate on reported claims to the Group. 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.

Amounts in thousands ISK

29. Accounts payable and other liabilities

Accounts payable:	31.12.2012	31.12.2011
Payables arising from insurance operations	495.924	489.601
Reinsurance, debt	67.639	85.666
Account payable	0	73.552
Associates, debt	603.759	283.372
	1.167.322	**932.191**

Other liabilities		
Value added tax	0	40.144
Unearned income	91.456	144.167
Salaries and related expenses, unpaid	298.759	360.917
Pension obligation	16.090	0
Other commitments	0	71.067
Other liabilities	18.459	23.652
	424.764	**639.947**

30. Borrowings

	31.12.2012	31.12.2011
Long-term debt in ISK	0	210.755
Current maturities of non-current liabilities	0	30.705
	0	**241.460**

31. Financial Instruments

31.1 Categories of financial instruments
The categories of financial assets and financial liabilities are as following:

Financial assets:	31.12.2012	31.12.2011
Cash and cash equivalent	4.318.165	4.615.086
Financial assets at fair value through P/L	25.953.126	24.300.522
Held-to-maturity investments	4.182.536	0
Loans and receivables	5.615.946	6.698.302
Deposits for foreign operations	441.762	367.823
Financial liabilities:		
Other financial liabilities	1.167.322	1.173.651

Amounts in thousands ISK

31.2 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).

Consolidated financial statement

At December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through P / L	21.354.682	89.463	4.508.981	25.953.126

Consolidated financial statement

At December 31, 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through P / L	20.299.548	18.907	3.982.067	24.300.522

During the year the Group purchased mortgage securities classified as level 3, which explains the increase from the previous year.

The fair value measurements of financial assets classified as level 3 are determined by the following methods:

Net asset valuation (NAV) from fund managers – In the case of security investment funds and professional investors' funds, the valuation given by the managers of the funds should be used. The requirement is that those calculations are made according to accepted standards for valuating such assets. It is permitted to deviate from the valuation of the fund manager, but only to decrease the value of the asset. This is only used if there is evidence that the published price is not up to par with requirements or events have occurred since the last valuation, which indicate that the asset has declined in value. In case of deviations from the fund manager's valuations, a memorandum shall be prepared in which the new valuation is justified and approved by the investment board.

Put options or shareholders agreement – When a put option is available for the securities or shareholders agreement is in place for the price, those prices can be used.

Prices based on the other similar securities– In cases where similar assets are listed on the market it is permitted to use that price as a basis for the security. An example of this is the bond yield, EV/EBITDA and P/E ratio for stocks. When using comparison with other similar assets to determine the price of securities owned by the Group, prudency shall be used in the valuation. In such cases a memorandum shall be prepared in which the new valuation is justified and approved by the investment board.

The purchase price – If none of the above methods are feasibly the purchase price is used as the price.

Amounts in thousands ISK

31.3 Financial risk management

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

31.4 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 Group 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 affect 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 Group has no interest bearing borrowings. Interest rate changes effect expected cash flow relating to floating rate assets. The Group hasn't entered into interest rate swaps to reduce the risk relating to changes in interest rates, but the Group 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.

	31.12.2012		31.12.2011	
	50 bp.	100 bp.	50 bp.	100 bp.
Effects on P/L and equity	18.954	37.908	21.345	42.689

31.5 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 Group's assets and liabilities are in ISK the domestic currency, but the Group holds some foreign currency financial assets. Below, the foreign currencies that mainly affect the Group's operations are stated. Rates reflect buying rate, but annual volatility is calculated based on mid-rate

	Closing rate		Average rate		Volatility
	2012	2011	2012	2011	2012
EUR	168,90	158,84	160,73	161,42	6,3%
GBP	206,97	189,43	198,16	186,00	9,3%
DKK	22,64	21,37	21,59	21,67	5,9%
NOK	22,94	20,40	21,50	20,70	12,4%
SEK	19,67	17,79	18,47	17,88	10,5%
USD	128,01	122,71	125,05	116,07	4,3%
CHF	139,86	130,66	133,35	131,20	7,0%
CAD	128,69	120,21	125,11	117,31	7,1%
JPY	1,49	1,59	1,57	1,46	-6,3%

Amounts in thousands ISK

Consolidated financial statement

Foreign currency exposure 31.12.2012	Assets	Liabilities	Net balance
EUR	1.833.629	682.213	1.151.416
GBP	1.144.151	650.805	493.346
DKK	37.651	0	37.651
NOK	27.616	0	27.616
SEK	8.584	0	8.584
USD	1.817.167	957.394	859.773
CHF	9.598	0	9.598
CAD	4.836	0	4.836
JPY	7.916	0	7.916
Other	5.866	0	5.866

Consolidated financial statement

Foreign currency exposure 31.12.2011	Assets	Liabilities	Net balance
EUR	2.477.114	851.858	1.625.256
GBP	916.012	209.087	706.925
DKK	51.134	0	51.134
NOK	32.467	0	32.467
SEK	9.890	602	9.288
USD	2.302.655	1.255.089	1.047.566
CHF	5.074	0	5.074
CAD	0	11	(11)
JPY	23.010	0	23.010
Other	9.222	0	9.222

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 is 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 involves 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.

Consolidated account Amounts in thousands ISK

Effects on income statement and equity from an ISK depreciation

	31.12.2012		31.12.2011	
	5%	10%	5%	10%
EUR	46.057	92.113	65.010	130.021
GBP	19.734	39.468	28.277	56.554
DKK	1.506	3.012	2.045	4.091
NOK	1.105	2.209	1.299	2.597
SEK	343	687	372	743
USD	34.391	68.782	41.903	83.805
CHF	384	768	203	406
CAD	193	387	(0)	(1)
JPY	317	633	920	1.841

31.6 Equity price risk

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

	31.12.2012	31.12.2011
Shares in other companies at fair value through P/L	3.160.523	3.082.059
Listed securities at fair value through P/L	22.792.603	21.218.463

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.

	31.12.2012		31.12.2011	
	5%	10%	5%	10%
Shares in other companies - effects on P/L and equity	158.026	316.052	154.126	308.253
Listed securities - effects on P/L	1.139.630	2.279.260	1.060.923	2.121.846

31.7 Credit risk

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

Amounts in thousands ISK

Reconciliation of maximum credit risk:

	31.12.2012	31.12.2011
Market securities, credit rating BBB -	7.355.131	8.522.397
Market securities, credit rating BB/B	9.370.613	7.436.959
Market securities, credit rating AA +	389.899	366.764
Held-to-maturity investments BBB -	2.593.315	0
Held-to-maturity investments BB/B	1.589.221	0
Other market securities	5.673.375	4.892.343
Secured loans and other loans	252.108	1.509.060
Receivables	4.797.117	4.603.641
Reinsurance assets	566.721	585.601
Restricted cash receivables due to foreign trade	441.762	367.823
Cash and cash equivalents	4.318.165	4.615.086
	37.347.428	**32.899.674**

The maximum credit risk consists of the carrying amounts above.

31.8 Concentration risk

Concentration risk applies to all large exposures where losses could threaten the solvency or the financial position of the company. This risk includes concentration in the insurance portfolio, investments, reinsurance and concentration factors of correlation between the above. The Company has adopted an investment strategy to minimize the concentration risk in the portfolio. VIS has, as stated in the note for loss frequency risk, well distributed policyholders so the concentration of insurance risk on individual policyholder is insignificant. The reinsurance strategy provides distribution, safety assessment, and the maximum risk to individual reinsurers.

31.9 Liquidity risk

Liquidity risk is the risk that the Group 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 Group's liquid assets are well adequate to cover expected short term cash outflow. The Group operates under rules and regulations of supervisory authorities in Iceland. According to these rules the Group 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:

Consolidated

31.12.2012	Within one year	2014	2015+	Total
Claims provision	9.678.003	5.365.564	5.771.025	20.814.592

Consolidated

31.12.2011	Within one year	2013	2014+	Total
Claims provision	8.856.040	5.142.942	5.456.415	19.455.397

Consolidated account Amounts in thousands ISK

31.10 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.

31.11 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 Group 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 Group is a multiline insurance company with significant risk diversification between insurance branches. It has a wide spread and efficient distribution network all over Iceland and has some minor operation outside Iceland. The following table shows the diversification between insurance segments by premiums earned.

Insurance classes - Premiums earned

Property insurance	25,2%
Marine hull and cargo insurance	3,1%
Compulsory motor insurance	31,4%
Other motor insurance	14,1%
General liability insurance	5,5%
Accident and sickness insurance	10,9%
Health and critical illness insurance	3,7%
Reinsurance	6,1%
	100,0%

Domestic, foreign operation - Premiums earned

Domestic operation	92,6%
Foreign operation	7,4%
	100,0%

31.12 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 Group devises a reinsurance program for each branch of the business and for the Group as a whole. The amount of risk that the Group carries for its own account is determined with respect to the financial strength of the Group and the nature of the risk. By implementing the reinsurance program the Group reduces the loss size risk significantly but by doing so, another risk arises, so-called reinsurers' risk.

Amounts in thousands ISK Consolidated account

31.13 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 Group'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 2012 and estimated figures for 2013.

	2013	2012
AA+	6,0%	6,3%
AA-	73,4%	73,4%
A+	14,3%	13,8%
A	0,9%	0,9%
A-	4,4%	5,4%
BBB	1,0%	0,2%
	100,0%	**100,0%**

31.14 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.

31.15 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 Group 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 Group to meet lower return on its investments in the future.

Amounts in thousands ISK

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

	2012	2011	2010	2009	2008
Loss ratio	73,6%	82,1%	80,5%	86,1%	88,5%
Operating expenses ratio	21,6%	20,9%	21,1%	19,3%	19,9%
Reinsurance cost ratio	3,3%	3,1%	2,7%	1,8%	2,7%
Combined ratio	**98,5%**	**106,1%**	**104,3%**	**107,2%**	**111,1%**
Investment income ratio	6,8%	5,9%	7,6%	10,8%	16,4%
Other income ratio	0,8%	0,7%	0,7%	0,6%	1,5%
Operating ratio	**91,6%**	**99,5%**	**96,3%**	**96,2%**	**94,2%**

32. Related party transactions

Related parties are those parties which have considerable influence over the Group, 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 Group, i.e. affiliates and joint ventures. Business with related parties has been done on a similar basis as business with unrelated parties. In Note 9 salaries and commissions to executives are shown.

Consolidated

Related parties transactions in the year 2012:	Purchases of goods/services	Sales of goods/ services	Premiums earned	Claims
Klakki ehf. and related parties	26.360	5.532	47.763	7.305

Related parties transactions in the year 2012:	Receivables	Liabilities
Klakki ehf. and related parties	38.070	602.398

The company purchased all shares in Líftryggingafélag Íslands hf. from its parent company Klakki ehf. in the year 2012, see note 33.

Consolidated

Related parties transactions in the year 2011:	Purchases of goods/services	Sales of goods/ services	Premiums earned	Claims
Klakki ehf. and related parties	31.978	179.914	53.965	15.107

Related parties transactions in the year 2011:	Receivables	Liabilities
Klakki ehf. and related parties	679.221	290.778

The Group purchased shares in ÖM eignarhaldsfélag ehf. from its parent company Klakki ehf. in the year 2011.

33. Business combinations

33.1 Investment in subsidiaries	Operation	Date of purchase	Shares acquired	Purchase price
Líftryggingarfélag Íslands hf.	Life-insurance	19.3.2012	99,93%	3.180.929

Líftryggingarfélag Íslands hf. was purchased for the purpose of strengthening the Group's operations.

Amounts in thousands ISK

On March 19th 2012 purchase agreement was signed with parent company of VÍS, Klakki ehf. for the purchase of Líftryggingafélag Íslands hf. (LÍFÍS), a sister company of VÍS. The value of LÍFÍS was assessed by a third party and the contract was based on that assessment. The purchase price was ISK 3,181 million. The purchase price was paid in cash 800 million and in other financial assets owned by the Company with a book-value of ISK 2,381 million.

The purchase price allocation for the business combination has been carried out, in accordance with IFRS 3 Business combinations. Goodwill amounting to 475 million is recognized in the consolidated financial statement.

33.2 Cash outflow on purchase of subsidiary

	2012
Purchase price paid in cash	(800.000)
Cash and cash equivalents from acquired subsidiary	763.241
	(36.759)

33.3 Assets acquired and liabilities recognised at the date of acquisition

Assets	
Investments	2.350.690
Investment for the benefit of life-insurance policyholders who bear the investment risk	1.137.365
Business relationships	563.467
Reinsurance assets	143.959
Other receivables	14.096
Cash and cash equivalents	763.241
Liabilities	
Technical provision	(901.365)
Technical provision for life-insurance policies where the investment risk is born by the policyholders	(1.137.365)
Deferred tax liability	(79.140)
Pension obligation	(16.541)
Other liabilities	(132.077)
	2.706.330

33.4 Goodwill arising on acquisition

Purchase price	3.180.929
Assets acquired and liabilities recognised at the date of acquisition	(2.706.330)
	474.599

33.5 Effects on purchasing subsidiary on the consolidated

Effects of the purchase of Líftryggingarfélag Íslands hf. from the acquisition date to the end of the accounting period resulted in additional revenues amounting to 629.6 million and a profit of 165.9 million.

Had the purchase occurred January 1st 2012 the consolidated revenue would have been higher, which amounts to 217.2 million in higher revenue and 90.5 million in profit.

33.6 Sale of subsidiaries

On 4th December 2012 the Group sold its 83% shares in Öryggismiðstöð Íslands hf. The Company was classified under investments in subsidiaries. Profit from the sale is recognized under discontinued operations.

Consolidated account Amounts in thousands ISK

34. Contingencies and other matters

Lease agreements

The Group has entered into lease agreements for buildings used in its operations in various parts of the country. The amount payable for these lease agreements are ISK 15.5 million per month and the total obligation is ISK 971.2 million. These contracts are temporary and are valid for 2017 -2019.

Under these contracts the lease payments for the year 2013 are ISK 186.3 million, in years 2-5 ISK 744.6 million and after 5 years ISK 40.3 million.

Rent paid due to these contracts in 2012 was ISK 183.3 million and in 2011 ISK 176.4 million.

Subpoena from Winding-up board of SPRON

The Winding-Up Board of SPRON filed a subpoena on 19 July 2012 against Vátryggingafélag Íslands hf. (VÍS) and is demanding annulment and / or refund of a money market loan VÍS deposited with SPRON in September 2008 and was repaid on 31st of October 2008. VÍS filed a report on the matter on 15 January 2013 and the case is in initial stages with the District Court of Reykjavik. The amount claimed by the Winding-Up Board is ISK 2 billion plus penalty interests. It is uncertain when the results of the judgment will be available and any delay in the outcome of the court might affect the final amount of the claim. According to previous rulings of the Supreme Court and articles of the Interest Act it is likely that penalty interest would be calculated from the time of the subpoena filing, if the ruling will be unfavourable for VÍS.

It is management's view that the Winding-Up Board's arguments are based on weak grounds and it is more likely that the ruling will fall in VÍS favour. Therefore no provision has been recorded in the Groups financial statements for the year ended 31 December 2012.

35. Events after the Balance Sheet date

Klakki ehf., the owner of the Company, has decided to bring the Company into sales process and apply for its shares to be listed in the Icelandic stock exchange. The Board of Directors has approved the latter.

36. Approval of the Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 28 February 2013.

Glossary of Terms

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