Consolidated Financial Statements

for the year 2007

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Exista hf.

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Endorsement of the Board of Directors and the CEOs

The Consolidated Financial Statements for the year 2007 consist of the Consolidated Financial Statements of Exista hf. and its subsidiaries together referred to as the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and additional Icelandic disclosure requirements for listed companies.

According to the Consolidated Financial Statement, profit for the year amounted to EUR 574 million compared to EUR 427 million for prior year. According to the Consolidated Balance Sheet, total assets at year end amounted to EUR 8,010 million compared to EUR 4,395 million at prior year end. Equity at year end amounted to EUR 2,369 million compared to EUR 1,900 million at prior year end. The Group's equity ratio is 29.6% at year end 2007.

At 31 December 2007 Exista's shareholders numbered 29,663 as compared to 31,410 at the beginning of the year. One shareholder owned more than 10% of the shares at year end, Bakkabraedur Holding B.V. which owned 45.21%

It is the opinion of the Board of Directors and the CEOs that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the Group's assets and liabilities, financial position and operating performance, as well as describe the principal risk and uncertainty factors faced by the company.

The Board of Directors and the CEOs of Exista hf. have today discussed and approved the Consolidated Financial Statements for the year 2007 with their signature. The Board of Directors recommend that the Annual General Meeting approve the Consolidated Financial Statements.

Reykjavík, 31 January 2008

Board of Directors

Lýdur Gudmundsson
Chairman

Ágúst Gudmundsson

Gudmundur Örn Hauksson

Bogi Pálsson

Sigurjón Rúnar Rafnsson

Robert Tchenguiz

CEOs

Erlendur Hjaltason

Sigurdur Valtýsson

Independent Auditors' Report

To the Board of Directors and shareholders of Exista hf.

Report on the Financial Statements

We have audited the accompanying financial statements of Exista hf., which comprise the balance sheet as at December 31, 2007, 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Exista hf. as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 31 January 2008.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorised Public Accountant

Knútur Þórhallsson
State Authorised Public Accountant

Consolidated Income Statement for the year 2007

	Notes	2007	2006
Net gain on financial assets at fair value through profit or loss	7	0.8	357.6
Net gain (loss) on financial assets held for trading	8	(46.3)	129.0
Dividend	9	12.6	78.7
Interest revenue	10	91.2	50.3
Insurance premium	11	129.0	73.6
Share of profits of associates	24	756.2	0.0
Other revenues	13	17.9	7.6
Total revenues		961.5	696.7
Insurance claims	12	(104.4)	(58.6)
Operating expenses	14	(65.4)	(51.1)
Total expenses		(169.9)	(109.6)
Profit before financial expenses		791.7	587.1
Interest expense		(350.3)	(104.1)
Net foreign exchange gain (loss)		84.3	(46.4)
Total financial expenses		(266.0)	(150.5)
Profit before tax		525.7	436.6
Income tax	16	48.2	(9.9)
Profit for the year		573.9	426.7
Attributable to:			
Equity holders of the parent		573.7	427.8
Minority interest		0.2	(1.1)
		573.9	426.7
Earnings per share (cents):	19		
Basic		5.11	4.30
Diluted		5.11	4.30

Consolidated Balance Sheet at 31 December 2007

	Notes	31.12.2007	31.12.2006
Assets			
Financial assets at fair value through profit or loss	20	1,123.4	2,272.7
Financial assets held for trading	21	210.2	837.0
Loans and receivables	22	785.0	703.8
Goodwill and other intangible assets	23	469.4	464.8
Investments in associates	24	4,737.6	0.0
Reinsurance assets	25	10.1	15.8
Investment properties	26	70.1	0.0
Property and equipment	27	27.6	12.2
Cash and equivalents	28	567.6	76.1
Other assets		9.5	12.6
Total assets		8,010.5	4,395.1
Equity			
Share capital	29	120.6	112.3
Reserves		736.3	720.7
Retained earnings		1,511.3	1,061.3
Equity attributable to equity holders of the parent		2,368.1	1,894.3
Minority interest		0.6	5.9
Total equity		2,368.7	1,900.2
Liabilities			
Borrowings	30	5,123.7	2,183.0
Hybrid securities	31	250.0	0.0
Technical provision	32	221.5	223.9
Deferred income tax liability	16	18.8	60.2
Other liabilities		27.8	27.8
Total liabilities		5,641.8	2,494.9
Total equity and liabilities		8,010.5	4,395.1

Consolidated Statement of changes in Equity for the year 2007

	Share capital	Reserves	Retained earnings	Minority interest	Total equity
Equity at 1 January 2006	91.8	204.8	719.1	0.0	1,015.8
Change in minority interest				6.9	6.9
Issue of share capital	22.7	561.1			583.8
Payment of dividends			(52.8)		(52.8)
Translation out		1.4	(1.4)		0.0
Profit for the year			396.4	(1.0)	395.4
Net buy back of own shares	(2.2)	(46.6)			(48.8)
* Equity at 31 December 2006	112.3	720.7	1,061.3	5.9	1,900.2
Equity at 1 January 2007	112.3	720.7	1,061.3	5.9	1,900.2
Change in minority interest				(5.5)	(5.5)
Issue of share capital	5.9	139.7			145.6
Payment of dividends			(123.7)		(123.7)
Profit for the year			573.7	0.2	573.9
Net sale of own shares	2.3	54.9			57.1
Changes in equity of associates		(14.0)			(14.0)
Exchange difference arising on translation of foreign operation		(165.0)			(165.0)
Equity at 31 December 2007	120.6	736.3	1,511.3	0.6	2,368.7

* The Company changed its reporting currency from Icelandic Króna to Euro as of 1 January 2007. Comparative figures in equity for the year 2006 are translated to Euro using at the exchange rate at 31 December 2006 (94.61).

Consolidated Cash Flow Statement for the year 2007

	Notes	2007	2006
Cash flows from operating activities			
Profit for the year		573.9	426.7
Net investment and foreign exchange (gain) loss		35.2	(435.4)
Income tax recognised in Income Statement	16	(48.2)	9.9
Interest expenses recognised in Income Statement		350.3	104.4
Technical provision, change		(2.4)	6.2
Share of profits of associates	24	(756.2)	0.0
Deferred income tax liability, change		(39.1)	8.4
Dividends from associates	9	135.4	0.0
Depreciation and amortisation	23, 27	3.4	5.6
		252.2	125.9
Movements in working capital:			
Loans and receivables, change		(72.4)	(187.9)
Payables, change		(0.0)	154.3
Cash generated from (to) operations		179.8	92.3
Interest paid		(212.8)	(90.7)
Income tax paid		(1.5)	(1.6)
Net cash (used in) generated by operating activities		(34.4)	(0.1)
Investing activities			
Financial assets		(2,396.2)	(738.1)
Investment properties		(63.4)	0.0
Property and equipment		(5.2)	(1.4)
Net cash (used in) generated by investing activities		(2,464.8)	(739.4)
Financing activities			
Proceeds from borrowings		3,115.3	795.2
Proceeds from issue of share capital		0.0	21.3
Dividends paid to equity holders of the parent	18	(123.7)	(52.8)
Net cash (used in) generated by financing activities		2,991.6	763.7
Net increase in cash and equivalents		492.4	24.2
Cash and equivalents at the beginning of the financial year		76.1	52.5
Effects of foreign exchange rate changes		(0.9)	(0.6)
Cash and equivalents at the end of the financial year		567.6	76.1

Investing and financing activities not affecting cash flow:

Investment in associates	(203.0)	
Issued share capital	203.0	

Notes to the Consolidated Financial Statements

1. General information

Exista hf. is a company incorporated and domiciled in Iceland. The Consolidated Financial Statements for the year ended 31 December 2007 comprise Exista hf. (the parent or the Company) and its subsidiaries (together referred to as the Group).

The principal activities of the Group are insurance and assets finance, together with strategic holdings as a major shareholder in several of Iceland's largest companies and the Finnish financial services company, Sampo Oyj. The Group concentrates on Northern Europe as its core market.

2. Adoption of new and revised Standards

2.1 Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7, *Financial Instruments: Disclosures,* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1, *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 33).

Four Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS* 2; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and interpretations were in issue but not effective:

	Effective:
- IFRS 8, Operating Segments	1 January 2009
- IAS 23 (Revised) Borrowing costs	1 January 2009

At the date of authorisation of these financial statements, the following Interpretations were in issue but not effective:

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions	1 March 2007
- IFRIC 12, Service Concession Arrangements	1 January 2008
- IFRIC 13, Customer Loyalty Programmes	1 July 2008
- IFRIC 14, IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2008

The directors anticipate that all of the above Interpretations will be adopted in the Group's financial statements for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

3. Significant accounting policies

3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

3.2 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis, except for the following assets and liabilities that are stated at their fair value: financial instruments designated at fair value through profit and loss, financial instruments held for trading and financial liabilities held for trading. The principal accounting policies are set out below.

The Consolidated Financial Statements are prepared in Euros (EUR). The change in functional currency from Icelandic Króna to Euro was made as of 1 January 2007 after receiving the proper authorisation from regulatory authorities. This change is carried out in order to reflect in a more transparent way the focus of the Group's operation and economic changes with regards to the Euro exposure as it's main currency. The comparative figures for the same period in 2006 have been translated to Euros.

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.

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

Where 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.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see 3.4 below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations,* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.5 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

Investments in associates held for the purpose of venture capital organisations are designated as financial assets at fair value through profit or loss and accounted for in accordance with IAS 39, F*inancial Instruments: Recognition and Measurement*.

3.6 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised 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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described at 3.5 above.

3.7 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.7.1 The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.7.2 The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 3.9). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.8 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each entity are expressed in Euros (EUR), which is the functional currency of the Company and the presentation currency for the Consolidated Financial Statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

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

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are expressed in Euros using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.9 Borrowing costs

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

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

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

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

3.10 Taxation

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

3.10.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3.10.2 Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profit against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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 and the Group intends to settle its current tax assets and liabilities on a net basis.

3.10.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

3.11 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, as follows:

Property	2-4%
Equipment	20-35%

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.

The gain or loss arising on the disposal or retirement of a property or an equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.12 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

3.13 Intangible assets

3.13.1 Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.13.2 Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.14 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date 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 assets 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, 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 (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

3.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) 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 balance sheet date, taking into account the risks and uncertainties surrounding the obligation. 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, the 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.

3.16 Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through the income statement, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit and loss' (FVTPL), 'held-to-maturity investments' (HTM), '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.

3.16.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

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

3.16.2 Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

• it has been acquired principally for the purpose of selling in the near future; or

• it is a part of an identified portfolio of 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.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 33.

3.16.3 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. HTM investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

3.16.4 Available for sale financial assets

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 33. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividend on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

3.16.5 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 where the recognition of interest would be immaterial.

3.16.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where 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 impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

3.16.7 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.17 Financial liabilities and equity instruments issued by the Group

3.17.1 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.

3.17.2 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 are recorded at the proceeds received, net of direct issue costs.

3.17.3 Compound instruments

The component parts of compound instruments 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 nonconvertible instrument. This amount is recorded as a liability on an amortised cost basis 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.

3.17.4 Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and 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.

3.17.5 Financial liabilities

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

3.17.6 Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL where 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 incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of 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.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 33.

3.17.7 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.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.17.8 Derecognition of financial liabilities

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

3.18 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 33.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

3.18.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3.18.2 Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3.18.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the Income Statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3.18.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3.18.5 Hedges of net investment in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

3.19 Offsetting financial asset and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.20 Insurance contracts

The Group issues contracts that transfer both financial and insurance risk from its customers.

3.20.1 Insurance contracts - definition

Insurance contracts are contracts under which the insurer accepts significant insurance risk from policyholders by agreeing to compensate the policyholders if a specified uncertain future event would occur.

Insurance risk is all risk, other than financial risk, that is moved from the policyholder to the insurer such as accident, death or damage. Financial risk is however the risk of changes in the market environment.

3.20.2 Insurance contracts - classification

Insurance contracts are categorised in two groups according to how long the insurance risk lasts and whether the contracts are fixed or variable.

i) Property and casualty insurance:

Insurance contracts that are categorised as in this section are liability insurance, casualty insurance and property insurance.

Liability and casualty insurance contracts protect customers against the risk of causing harm to third parties as a result of their legitimate activities and compensates the policyholders own damage in accordance with the terms of the insurance contracts.

Property insurance contracts mainly compensate the customers for damage suffered to their properties or for the value of property lost. Customers in business can also receive compensation for the loss of earnings caused by the inability to use insured properties in their business.

ii) Life insurance:

These contracts insure events associated with human life, e.g. death or survival over a long duration. Premiums are entered as income in the period they are issued and claims paid are entered as expense in the period that the insured event occurs.

3.20.3 Investments with investment risk of the life assurance policyholders

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

3.20.4 Technical provision

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 recognised in the Income Statement. In performing these tests, current best estimates of future contractual cash flows, claims handling, administration expenses and investment income from the assets backing those liabilities, are used.

3.20.5 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 recognised as reinsurance assets. The claims concern the reinsurers share in damages according to reinsured insurance contracts and share in premium liability. Obligations due to reinsurance are the reinsurers share in premiums for reinsurance contracts which are recognised in the Income Statement at the time of the renewal of the reinsurance contracts.

3.21 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

3.22 Income and expense

3.22.1 Insurance operations

i) Premiums

Premiums entered as income comprise the premiums contracted during the financial year, including premiums transferred from prior year, but excluding premiums for the next year which are entered as premium reserve. Premium reserve entered as liability forms the part of premiums due to insurance risk for the period which belongs to the next financial year.

ii) Claims

Claims stated in the Income Statement are claims for the financial year, including changes in claims from prior years. Claims entered as an asset are the total amount of reported but unpaid claims as well as actuarial provision for claims occurred but unreported.

3.22.2 Leasing operations

i) Interest income and expense

Interest income and expense are recognised in the Income Statement as it accrues, using effective interest rates. Interest income and expense consist of interest expense from contracts and other differences in original book value and amount on the day of maturity which are calculated using effective interest rates.

3.22.3 Financial operations

i) Changes in market value of investments

Changes in the market value of investments include changes in the price of listed shares in other companies and the changes in the valuation of unlisted shares.

ii) Dividend income

Dividend income is recognised in the Income Statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues.

3.23 Segment reporting

Business segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments.

3.24 Stock option contracts and obligations to increase share capital

The Group has made no stock option agreements.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

5. Segment information

5.1 Business segment

The Group's operation is based on two foundations: the Operating business and the Investment business. The businesses are monitored and supported by four divisions at group level: Group Finance, Group Risk Management, Group Legal and Group Communications.

Operating business

Exista Insurance comprises two subsidiaries that are fully owned by the Group. The non-life insurance company Vátryggingarfélag Íslands hf. and the life insurance company Líftryggingarfélag Íslands hf.

The asset finance business of Exista is operated through its subsidiary Lýsing hf., which offers various financing products to commercial and private clients.

Exista Trading manages proprietary trading and asset management for the Group.

Investment business

Exista Investment is among Iceland's largest investment operations. It is organised in two businesses, Exista Strategic Holdings and Exista Other Businesses, where each business has a different time horizon and investment policy.

5.2 Segment revenue and result

	Operating	Investment	Total 2007	Total 2006
Investment revenues	(52.6)	776.0	723.4	565.3
Insurance premium	129.0		129.0	73.6
Interest revenues	66.6	24.6	91.2	50.3
Other revenues	16.7	1.2	17.9	7.6
Total revenues	159.7	801.8	961.5	696.7
Insurance claims	(104.4)		(104.4)	(58.6)
Operating expenses	(49.1)	(16.4)	(65.4)	(51.1)
Total expenses	(153.5)	(16.4)	(169.9)	(109.6)
Profit before financial expenses	6.2	785.5	791.7	587.1
Financial expenses	(33.4)	(232.5)	(266.0)	(150.5)
Profit before tax	(27.2)	552.9	525.7	436.6
Income tax	45.2	3.1	48.2	(9.9)
Profit for the year	17.9	556.0	573.9	426.7

Depreciation and amortisation in the operating segment amounted to 3.4 million during 2007. No depreciation nor amortisation was recognised in the investment segment during the year.

5.3 Segment assets and liabilities

	Operating	Investment	Total 2007	Total 2006
Financial assets measured at fair value	42.8	1,080.6	1,123.4	2,272.7
Financial assets held for trading	212.5	(2.3)	210.2	837.0
Loans and accounts receivable	737.5	47.5	785.0	703.8
Goodwill and other intangible assets	469.4	0.0	469.4	464.8
Investments in associates	0.0	4,737.6	4,737.6	0.0
Reinsurance assets	10.1	0.0	10.1	15.8
Investment properties	70.1	0.0	70.1	0.0
Property and equipment	27.6	0.0	27.6	12.2
Cash and equivalents	148.6	419.0	567.6	76.1
Other assets	4.7	4.8	9.5	12.6
Total assets...........	1,723.3	6,287.2	8,010.5	4,395.1
Borrowings	668.3	4,455.4	5,123.7	2,183.0
Hybrid securities	0.0	250.0	250.0	0.0
Technical provisions	221.5	0.0	221.5	223.9
Deferred income tax liability	18.0	0.9	18.8	60.2
Other liabilities	19.2	8.6	27.8	27.8
Total liabilities.....	926.9	4,714.9	5,641.8	2,494.9

Decrease in financial assets measured at fair value during 2007 is because the investment in Kaupthing banki hf. has been accounted for by using the equity method from 1 January 2007 and classified as investment in associates since.

6. Quarterly consolidated Income Statements

	2007				2006
	4th quarter	3rd quarter	2nd quarter	1st quarter	4th quarter
At fair value.................................	(104.6)	32.0	35.3	38.2	24.6
Held for trading...........................	(156.3)	(37.3)	36.4	110.8	103.8
Dividend......................................	0.0	0.7	6.9	5.0	58.3
Interest revenues..........................	30.3	23.2	19.3	18.4	22.8
Insurance premium.....................	31.2	32.0	30.6	35.2	25.6
Share in profit of associates.......	48.4	92.5	158.3	457.0	0.0
Other revenues............................	7.2	4.2	3.3	3.3	2.5
Total revenues..................	(143.8)	147.1	290.2	668.0	237.5
Insurance claims..........................	(28.3)	(25.1)	(24.5)	(26.5)	(21.8)
Operating expenses.....................	(18.8)	(14.5)	(15.5)	(16.7)	(17.6)
Total expenses..................	(47.1)	(39.6)	(40.0)	(43.2)	(39.4)
Profit before financial expenses.........	(190.8)	107.5	250.2	624.8	198.0
Interest expense...........................	(109.4)	(106.2)	(78.2)	(56.4)	(37.7)
Net FX gains (losses)..................	(6.2)	8.7	52.7	29.0	(8.0)
Profit before tax...............................	(306.5)	10.0	224.7	597.5	152.3
Income tax....................................	10.9	(2.6)	(3.3)	43.2	(4.8)
Profit for the period..........................	(295.6)	7.4	221.4	640.7	147.4

The summary of the Group's quarterly Income Statement is unaudited.

7. Net gain on financial assets at fair value through profit or loss

	2007	2006
Shares - listed	(63.9)	289.0
Shares - unlisted	64.7	68.6
	0.8	357.6

8. Net gain (loss) on financial assets held for trading

	2007	2006
Shares - listed	(24.8)	108.0
Shares - unlisted	(2.2)	13.2
Funds - listed	(0.4)	0.8
Funds - unlisted	(0.4)	2.7
Bonds - listed	(12.3)	3.8
Bonds - unlisted	(1.2)	0.4
Other	(5.0)	0.0
	(46.3)	129.0

9. Dividend income

	2007	2006
Financial assets measured at fair value through profit or loss	5.0	75.2
Financial assets held for trading	7.7	3.5
	12.6	78.7

Total dividend received during 2007 amounted to EUR 148.0 million, thereof EUR 135.4 million from associated companies. Dividend from associated companies is not recognised in the income statement since they are accounted for using the equity method.

10. Interest revenue

	2007	2006
From leasing contracts	61.0	29.3
Other interest revenues	30.2	21.0
	91.2	50.3

11. Insurance premiums, net of reinsurance

	2007	2006
Premiums written	150.2	97.8
Reinsurers' share	(8.1)	(13.7)
Change in the gross provision for unearned premiums	(4.4)	(10.0)
Change in other tech. prov. of life assurance policyholders who bear the investm. risk	(0.6)	(2.5)
Change in the provision for unearned premiums, reinsurers' share	(7.7)	0.1
Unrealized gain on investm. of life-assurance policyholders who bear the investm. risk	(0.3)	1.9
	129.0	73.6

12. Insurance claims, net of reinsurance

	2007	2006
Claims paid	105.0	59.3
Claims paid, reinsurers' share	(3.4)	(6.3)
Change in the provision for claims	2.4	6.5
Change in the provision for claims, reinsurers' share	0.5	(1.0)
	104.4	58.6

13. Other revenues

	2007	2006
Security services	12.3	5.7
Rental income	2.3	0.3
Value adjustments of investment properties	2.1	0.0
Other revenues	1.2	1.6
	17.9	7.6

14. Operating expenses

	2007	2006
Salaries and related expenses	34.2	26.6
Administration expenses	23.9	18.0
Depreciation and amortisation	3.4	5.6
Other operating expenses	3.8	0.8
	65.4	51.1

15. Salaries and related expenses

	2007	2006
Salaries	29.0	22.6
Related expenses	5.2	4.0
	34.2	26.6
Average number of full time equivalent employees	433	286

Executive employment terms and ownership:

	Salaries	* Shares
Erlendur Hjaltason, CEO	0.35	24,760,862
Sigurdur Valtýsson, CEO	0.42	24,716,713
Lýdur Gudmundsson, Chairman	1.58	** 5,135,943,926
Ágúst Gudmundsson, Board member	0.03	** 5,135,943,722
Bogi Pálsson, Board member	0.03	173,297,238
Gudmundur Hauksson, Board member	0.03	*** 1,386,754,210
Robert Tchenguiz, Board member	**** 0	***** 579,101,094
Sigurjón R. Rafnsson, Board member	0.03	11,146
	2.47	

* Included are holdings of their spouses, dependent children, and companies owned and/or controlled by them.

** Bakkabraedur Holding B.V., the largest shareholder in Exista hf., is owned by Lýdur Gudmundsson and Ágúst Gudmundsson. Bakkabraedur Holding B.V. holds in total control of 5,135,943,722 shares in Exista.

***Gudmundur Hauksson is the Chairman of Kista-fjarfestingarfélag ehf. which is the second largest shareholder of Exista. Kista-fjárfestingarfélag ehf. in total holds control of 1,015,846,914 shares in Exista. Gudmundur is also the CEO of Sparisjódur Reykjvíkur og nágrennis (Reykjavík Savings Bank), which is the sixth largest shareholder of Exista. Sparisjódur Reykjavíkur og nágrennis in total holds control of 367,402,900 shares in Exista.

**** Robert Tchenguiz decided to donate his remuneration, EUR 31 thousand, to charity.

***** Castel (Luxembourg) S.a.r.l. is a wholly owned subsidiary of Glenalla Properties Limited. Glenalla Properties Limited is 95% owned by Investec Trust (Guernsey) Limited as Trustee of the Tchenguiz Family Trust of which Robert Tchenguiz is beneficiary. Castel (Luxembourg) S.a.r.l. in total holds control of 579,101,094 shares in Exista and is the third largest shareholder.

16. Income tax

16.1 Income tax recognised in profit or loss

In line with ongoing tax planning of the Group strategic assets were transferred between subsidiaries during the year, resulting in a positive income tax in the Income Statement (a reverse of prior tax charge).

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

	2007		2006	
Profit before tax		525.7		436.6
Tax calculated at domestic tax rate	18.0%	94.6	18.0%	78.6
Adjustment in respect of prior years	(9.2%)	(48.2)		
Effect of different tax rates of other jurisdiction	(17.6%)	(92.4)	(12.6%)	(55.1)
Tax effect of expenses that are not deductible	0.1%	0.4	0.1%	0.6
Tax exempt revenues	(0.5%)	(2.7)	(3.2%)	(14.2)
	(9.2%)	(48.2)	2.3%	9.9

16.2 Deferred tax balances

	2007	2006
At beginning of year	60.2	0.4
Arising through mergers and acquisitions	6.2	52.1
Calculated income tax for the year	(48.2)	9.9
Income tax to be paid next year	(3.3)	(1.5)
Effects of cash flow hedges	(0.2)	0.0
Net foreign currency exchange difference	4.2	(0.7)
	18.8	60.2

16.3 Deferred tax assets and tax liabilities are attributable to the following balance sheet items

	2007	
	Assets	Liabilities
Shares in other companies		4.1
Loans and receivables		13.1
Investment properties		2.5
Property and equipment		2.1
Carry forward taxable loss	5.0	
Other items		1.9
	5.0	23.8

17. Auditors fee

	2007	2006
Audit and audit related services	0.4	0.3
Other professional services	0.3	0.3
	0.7	0.6

18. Dividend paid

On 30 April 2007, a dividend of ISK 1.00 per share, total dividend EUR 124 million (ISK 10,838 million) was paid to shareholders. On 21 April 2006, a dividend of ISK 0.58 per share, total dividend EUR 57 million (ISK 5,000 million) was paid to shareholders.

19. Earnings per share

	2007	2006
Net earnings attributable to equity holders of the parent	573.7	427.8
* Weighted average number of shares for earnings per share calculation	11,230.5	9,942.9
Basic earnings per share (cents)	5.11	4.30
Diluted earnings per share (cents)	5.11	4.30

* Shares are registered in Icelandic Króna (ISK).

20. Financial assets measured at fair value through profit or loss

	31.12.2007	31.12.2006
Shares - listed	849.6	2,065.2
Shares - other	273.8	207.4
	1,123.4	2,272.7

Shares in listed companies are as follows:

	Share %	Nominal value	Closing price	31.12.2007	31.12.2006
* Kaupthing banki hf.	-	-	-	0.0	1,515.1
Bakkavör Group hf.	39.63%	855,151,478	ISK 58.50	548.5	545.8
Storebrand ASA	8.69%	39,097,164	NOK 56.70	278.3	0.0
** SPRON hf.	4.26%	213,135,934	ISK 9.13	21.3	0.0
Other	-	-	-	1.5	4.4
Listed shares total				849.6	2,065.2

* The investment in Kaupthing banki hf. has been accounted for using the equity method from 1 January 2007 and classified as investment in associates since.

** SPRON hf. was listed in the OMX Nordic exchange in Iceland on 23 October 2007.

Shares in unlisted companies are as follows:

	Share %	Acquisition price	Closing price	31.12.2007	31.12.2006
Skipti hf.	43.60%	ISK 13,501,019,634	-	148.1	142.8
Other	-	-	-	125.7	64.6
Unlisted shares total				273.8	207.4

21. Financial assets held for trading

	31.12.2007	31.12.2006
Shares - listed	58.0	678.6
Shares - unlisted	6.4	29.9
Funds - listed	64.9	31.8
Funds - unlisted	2.9	15.4
Bonds - listed	63.6	66.7
Bonds - unlisted	12.8	10.2
Other	1.6	4.4
	210.2	837.0

22. Loans and receivables

22.1 By type

	31.12.2007	31.12.2006
Leasing contracts	710.7	568.0
Bonds and bills	17.6	94.9
Insurance receivables	31.0	37.2
Other	44.6	12.7
Provision for losses on receivables	(18.9)	(9.0)
	785.0	703.8

22.2 By maturity

	31.12.2007	31.12.2006
On demand	41.3	41.4
Up to 3 months	61.7	75.6
Over 3 months and up to a year	137.8	124.7
Over 1 year and up to 5 years	440.3	372.3
Over 5 years	103.8	89.9
	785.0	703.8

22.3 Movement in provision for losses on receivables

	31.12.2007	31.12.2006
At beginning of year	9.0	7.7
Impairment losses recognised on loans and receivables	15.5	3.2
Amounts written off as uncollectible	(6.4)	(2.0)
Amounts recovered during the year	0.6	0.0
Net foreign currency exchange difference	0.3	0.0
	18.9	9.0

23. Goodwill and other intangible assets

	Goodwill	Customer contracts	Trademark	Total
At beginning of year	464.8			464.8
Additions & assessment changes in fair value	1.8			1.8
Derecognised on disposal of a subsidiary	(4.3)			(4.3)
Purchase price allocated to intangibles	(6.0)	5.8	0.2	0.0
Purchase price allocated to other assets	(10.8)			(10.8)
Realisation of deferred tax liability	3.0			3.0
Changes relating to transfer of assets	(1.9)			(1.9)
Amortisation during the period		(0.6)	(0.0)	(0.7)
Net foreign currency exchange difference..................	17.5			17.5
	464.0	5.2	0.2	469.4

Allocation of acquired goodwill in the acquisition of VÍS eignarhaldsfélag hf. was completed during the year.

The amortisation expense has been included in the line item 'operating expenses' in the Income Statement.

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

Customer contracts...	15 years
Trademark..	15 years

23.1 Annual test for impairment

After the acquisition of VÍS Holding the goodwill was distributed and divided among the cash-generating units (CGU). The goodwill was distributed among the CGU's according to purchase price allocation method. At year end an impairment test was performed on the CGU's: Lýsing, Lífís and VÍS which resulted in no impairment. An impairment test model was built for each CGU and the value tested if it was above the goodwill. They all resulted in value larger than the goodwill and thus no impairment was necessary.

24. Investments in associates

Changes in investments in associates:

	2007
At beginning of year	0.0
Purchases of shares in associates	2,083.0
Transfers	1,995.3
* Share of results for the year	756.2
Dividend	(135.4)
Net foreign currency exchange difference	38.5
	4,737.6

* Share in Q4 operating results of Sampo Oyj and Kaupthing banki hf. is based on estimates, performed and published by market analysts.

Investments in associates are as follows:

Name of associate	Nominal value	Incorporation	Ownership	Principal activity	Market value 31.12.2007
Kaupthing banki hf.	170,439,413	Iceland	23.02%	Banking	1,644.6
** Sampo Oyj	115,607,679	Finland	19.98%	Financial services	2,090.2
Other		-	-	-	10.5
Total associates					3,745.3

** An agreement was completed in Q1 to acquire 55,340,400 A-shares in Sampo Oyj, held by Exafin B.V. Exafin B.V. was previously an indirect subsidiary of the Tchenguis Family Trust. Prior to this transaction, the Group had control of 34,781,008 A-shares in Sampo Oyj.
In Q2 and Q3 the Group increased its holding in Sampo Oyj by purchasing 25.5 million additional shares. At 31 December 2007, Exista is the largest shareholder and controls 115,607,679 A-shares in Sampo, representing 19.98% of total share capital.

Market value compared to book value of investment in associates is as follows:

	31.12.2007
Book value of associates	4,737.6
Market value of associates	3,745.3
Book value exceeding market value	992.3

At year end it was assessed whether the Group's investment in associates were impaired by comparing their carrying amount with their recoverable amount. Because goodwill included in the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36, *Impairment of assets* . Instead, the entire carrying amount of the investment is tested under IAS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value less cost to sell) with its carrying amount. The impairment test concluded that there was no need for impairment of those assets.

25. Reinsurance assets

Reinsurance share in the technical provision is as follows:	31.12.2007	31.12.2006
Premium reserve	2.0	6.1
Claims reserve	8.1	9.7
	10.1	15.8

26. Investment properties

	2007
At fair value	
At beginning of year	0.0
Additions during the year	68.0
Increase in value adjustment	2.1
Net foreign currency exchange differences	(0.1)
	70.1

The fair value of the Group's investment property at 31 December 2007 has been arrived at on the basis of a valuation carried out at that date by independent valuers and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties and aggregate net rental income of the properties in addition to all relevant expenses.

27. Property and equipment

			Total	Total
	Property	Equipment	2007	2006
Cost or valuation				
At beginning of year	12.3	9.8	22.1	1.1
Additions	14.7	1.8	16.5	2.3
Acquisitions through business combinations	0.0	0.0	0.0	20.8
Disposals	(15.2)	(2.4)	(17.6)	(2.1)
Revaluation increase due to goodwill allocation	11.2	1.1	12.4	
Net foreign currency exchange difference	0.0	0.2	0.3	
At end of year	23.0	10.7	33.7	22.1
Accumulated depreciation				
At beginning of year	5.4	4.6	9.9	0.1
Charge for the period	0.9	1.8	2.7	1.9
Acquisitions through business combinations	0.0	0.0	0.0	8.7
Eliminated on disposal	(5.4)	(1.7)	(7.0)	(0.7)
Net foreign currency exchange difference	0.4	0.1	0.5	
At end of year	1.3	4.9	6.1	9.9
Carrying Amount				
At beginning of year	6.9	5.3	12.2	1.1
At end of year	21.8	5.8	27.6	12.2

The assessment- and insurance value at year end 2007 is as follows:

	Assessment value	Insurance value
Property	18.9	18.5
Equipment		4.9

28. Cash and equivalents

	31.12.2007	31.12.2006
Cash and bank balances	353.8	42.1
Term deposits	148.7	19.5
Money market deposit and current asset investments	65.0	14.5
	567.6	76.1

29. Share capital

Share capital at 31 December 2007 amounted to ISK 11,361,092,458 (EUR 120,565,318) with the nominal value of each share amounting to ISK 1. Each share carries one vote and a rigth to dividend. Share capital was increased in Q1 2007 by ISK 522,346,339 (EUR 5,918,268). Own shares at 31 December 2007 amounted to ISK 1,162,791 (EUR 12,290). All shares are fully paid for.

Share capital is as follows:

	Shares	Ratio
Total share capital according to Financial Statements 31 December 2007	120.6	99.99%
Own shares at 31 December 2007	0.0	0.01%
	120.6	100.00%

30. Borrowings

30.1 By currency

	31.12.2007	31.12.2006
Loans in CHF	152.4	225.2
Loans in DKK	40.2	43.3
Loans in EUR	3,263.9	786.4
Loans in GBP	49.4	54.8
Loans in JPY	125.3	160.4
Loans in NOK	0.0	61.9
Loans in SEK	0.2	0.0
Loans in USD	101.3	154.2
Loans in ISK	1,231.0	674.2
	4,963.7	2,160.5
Accrued interests	160.0	22.5
	5,123.7	2,183.0

30.2 By maturity

On demand	0.0	16.3
Up to 3 months	557.9	268.2
Over 3 months and up to a year	748.0	801.6
Over 1 year and up to 5 years	3,377.0	1,057.1
Over 5 years	440.9	39.8
	5,123.7	2,183.0

30.3 By type

Bonds issued	397.1	318.0
Bills issued	338.3	123.7
Money market loans	83.5	47.5
Subordinated loans	15.8	16.3
Other loans	4,289.0	1,677.4
	5,123.7	2,183.0

30.4 Other information

Recourse borrowings	2,730.4	2,183.0
Non - recourse borrowings	2,393.3	0.0
	5,123.7	2,183.0

31. Hybrid securities

EUR 250,000,000 of Preferred Equity Certificates (PEC) were issued in the fourth quarter which rank prior only to share capital but are subordinated to all other present and future obligations of the Group, whether secured or unsecured. The PEC's are issued for indefinite time and have as such no maturity date. However, the certificates include provisions for a potential redemption on its fifth anniversary and every third anniversary thereafter. The PEC's bears interests which accrue over the life of the instrument and are only payable should they be redeemed.

32. Technical provision

	31.12.2007	31.12.2006
Claims reported and loss adjustment expenses	143.0	141.7
Claims incurred but not reported	28.6	26.2
Claims outstanding	171.5	167.9
Provision for unearned premiums	49.9	55.9
Technical provision	221.5	223.9
Claims reported and loss adjustment expenses	7.4	8.5
Claims incurred but not reported	0.8	1.2
Claims outstanding	8.1	9.7
Provision for unearned premiums	2.0	6.1
Reinsurers' share	10.1	15.8

33. Financial instruments

33.1 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2006.

33.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

33.3 Risk management

The Board of Directors emphasises effective risk management and the Group operates a centralised Group Risk Management (GRM) unit in order to enforce that policy. The GRM unit reports directly to the CEOs. The GRM makes sure that the significant risks to which the Group is exposed are identified, monitored and managed through a framework of risk policies and procedures.

The Board of Directors determines overall risk tolerance levels. The CEOs oversee the day-to-day risk levels on behalf of the Board. A Risk Committee, an independent body, composed of senior management and chaired by the Chief Risk Officer (CRO) is responsible for proposing limits and policies to the Board of Directors for its approval, and for verifying that risk is managed within accepted tolerance levels. The Risk Committee also reports on significant matters and risk concentrations to the Board of Directors.

The CRO is responsible for GRM operations. Reporting to the CRO are the four individual risk functions: market risk, credit risk, operational risk and underwriting risk. Each function is responsible for monitoring the risk controls that apply to each risk factor in the Company and the subsidiaries, and for making sure that they are in line with the risk management goals of the management and Board of Directors. GRM is also responsible for working with the individual subsidiaries to establish best practices in risk management and to implement Group-wide reforms when new risk management practices develop. Group Treasury is responsible for managing the liquidity risk of the Group and reports quarterly to the Risk Committee. The GRM makes sure that risk factors are identified and that effective procedures and guidelines are in place in order to limit risk and to quantify and control the Group's risk exposure, as well as ensuring that the Company and the subsidiaries are enforcing sufficient risk management.

The Group's insurance subsidiaries and its asset finance subsidiary are regulated by the Financial Supervisory Authority in Iceland (FSA). They enforce that the activities of these subsidiaries are in accordance with the law and regulations and have sound business practices. The regulated subsidiaries report regularly to the FSA and the GRM monitors adherence to regulations and reports directly to the FSA on exceptional requests.

33.4 Market risk

Investments in associates comprise 59% of total assets. These holdings have from 1 January 2007 been accounted for using the equity method of accounting, thereby reducing the impact of market fluctuations on the Group's accounting profits, which would occur were such investments accounted for on a fair value basis. There is still an underlying market risk because a mismatch can develop between the accounts and the market value of the assets which would be realised if the assets were ever sold or marked down. The Group's listed holdings in financial assets measured at fair value and financial assets held for trading are marked to market on a current basis and are therefore affected by fluctuations on the equity markets. Financial assets measured at fair value and financial assets held for trading represent 14% and 3% respectively of the Group's total assets.

Financial assets held for trading represent the Group's proprietary trading and asset management for the insurance subsidiaries. Exista Trading is responsible for the asset management for our insurance subsidiaries as well as for proprietary trading. GRM monitors, manages and reports on the risks in the Group's proprietary trading portfolio as well as on the assets under management. All positions are marked to market intraday in the Group's systems. To quantify and measure market risk, stress tests and statistical tests are used.

The insurance subsidiaries portfolios are monitored by the FSA and they are structured to ensure that capitalisation is adequate and financial strength is maintained at all times. The portfolios are aimed at long-term investments, stable returns, diversified portfolios and minimising risk. The FSA imposes limits on the maximum amount of each type of security held in the portfolio. Diversification limits are in place to ensure adequate diversification of assets. No single security or counterparty can amount to more than 10% of the portfolio, the only exception to this rule being government bonds. The Group's GRM Unit monitors these portfolios and makes sure that they adhere to these limits, as well as, Group-wide risk limits that have been approved by the Group's Board of Directors.

GRM regularly performs stress tests on the Group's market assets, where extreme fluctuations are tailored and subjectively chosen based on historical experience and worst-case scenarios that give an indication of possible losses in a market crisis. The Group is primarily sensitive to equity market fluctuations in Northern Europe and in the financial sector.

33.5 Currency risk management

The Group undertakes certain transactions denominated in currencies, other than the accounting currency, including the NOK, USD, JPY and ISK. Currency exposure is managed with asset and liability matching. Derivative financial instruments (primarily currency forwards) are also used to hedge risks associated with currency fluctuations relating to certain firm commitments and forecasted transactions. Group Treasury is responsible for managing the Group's currency risk. GRM monitors and reports daily on currency exposure and ensures it stays within Board approved limits. The total currency exposure shall always be within 35% of the total equity of the Group as reported in the most recent financial statements. Further restrictions regarding exposure to individual currencies are also set in the currency risk policy. For investments in associates and unlisted assets the accounting currencies of the underlying assets are used in the currency balance, for listed equities the currency of the primary listing is used.

The net carrying amounts of the Group's currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Net position	
	2007	* 2006
EUR	(627.5)	(35.3)
NOK	301.8	59.8
USD	119.0	(14.4)
JPY	106.0	(38.7)
ISK	98.4	303.8
Other	3.8	(198.4)

* In 2006 the accounting currency of the Group was ISK, numbers have been converted to EUR on the basis of the 2006 EUR/ISK exchange rate at year end (94.61).

33.5.1 Currency sensitivity analysis

The following table details the Group's sensitivity to a 10% appreciation in the Euro against the relevant currencies. The sensitivity analysis includes currencies other than the accounting currency EUR and adjusts their translation at the period end. A positive number below indicates an increase in profit and equity where the EUR appreciates 10% against the relevant currency. For a 10% depreciation of the EUR against the relevant currency, there would be an equal and opposite impact on the profit and equity.

2007	NOK	USD	JPY	ISK
Effect on income	(30.2)	0.1	(9.7)	45.8
Effect on equity	0.0	(11.9)	(0.9)	(55.6)
2006	NOK	USD	JPY	ISK
Effect on income	(6.0)	5.4	3.9	Accounting
Effect on equity	0.0	(4.0)	0.0	currency

33.6 Interest rate risk management

The Group's total bond exposure (bonds and bond funds) amounted to EUR 76.4 million with an average duration of 6.23. A 100 bps increase in interest rates would result in approximately EUR 4.8 million loss in value. This decrease would have a negligible effect on the equity ratio of the Group.

33.7 Credit risk management

The Group's credit risk exposure is mostly concentrated in the asset finance subsidiary Lýsing hf. Lýsing's portfolio is well diversified in loans and leasing contracts. Lýsing's policy is to fully hedge interest rate- and currency risks inherent in its credit exposure. It has work procedures in place that aim to match both the duration of their lending contracts with the terms of their funding as well as the fixed vs. floating interest rates. All of Lýsing's contracts have provisions in them allowing Lýsing to change the interest rates on a monthly basis. This enables Lýsing to react quickly to changes in their funding profile. Since Lýsing is defined according to Icelandic law as a financial institution, it is regulated by the FSA and reports quarterly to them on loans in arrears, exposure concentration and equity limits. It is Lýsing's policy to maintain a ratio of 11%. The FSA requirement is an 8% CAD ratio for financial institutions. The CAD ratio for Lýsing was 10.58% at the end of 2007.

	2007	2006	2005	2004	2003
CAD ratio	10.58%	11.97%	11.40%	11.65%	11.58%

Lýsing has in place work processes regarding the approval of loan applications. Credit approval authority up to a certain amount is assigned to employees according to their qualifications, experience and training. A credit committee meets daily to review all applications that exceed a certain amount, as well as all commercial applications. If the exposure is over the approval limit allowance of the credit committee, an approval from the Lýsing Board of Directors is required. The risk assessment procedures consider both the creditworthiness of the counterparty and the risks related to the specific type of credit facility and exposure.

Lýsing has a well diversified asset backed loan portfolio that has grown by 5.6% over the year of 2007. The write-off of the loan portfolio at the end of 2007 was 0.69%, calculated as the total write-offs at year end against the total loan portfolio at the beginning of the year. The ratio of provisions to total loans at the end of the year was 2.15%.

	2007	2006	2005	2004	2003
Provisions % loans	2.15%	0.82%	0.84%	2.17%	2.01%
Write-offs % loans	0.69%	0.32%	0.47%	0.41%	0.47%

33.8 Liquidity risk management

Group Treasury is responsible for liquidity management and continuously monitors the Group’s liquid funds and maturing obligations ensuring that all liabilities are met as they arise. The primary objective is to ensure that all obligations maturing within 180 days can be met with committed liquidity sources. Furthermore, all debt maturing within 360 days should be covered with the addition of other liquidity sources. Committed liquidity includes cash and equivalent, committed credit lines and repo-eligible securities. Not included in those calculations are other liquid assets, estimated cash generation from insurance and asset finance activities, nor proposed dividends from holdings. Further information on the breakdown of borrowings can be found in note 30.

33.9 Underwriting risk

Underwriting risk is the risk that premiums collected from the insured are not sufficient to meet the liabilities arising from underwriting insurance policies. The Group is exposed to underwriting risk connected to the subsidiaries VÍS, a non-life insurance company and Lífís, a life insurance company. The main elements of underwriting risk are loss-frequency risk, loss-size risk, reinsurers' risk and technical provision risk. Following are the key figures and ratios related to the underwriting risk, figures and amounts, if not otherwise stated, express the total insurance activity of the Group's subsidiaries, VÍS and Lífís.

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. GRM 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. Using these examinations, the GRM looks to discover trends in loss frequencies and take necessary measures if needed.

Exista insurance segments - Gross Premiums 2007

Property	23.6%
Marine Hull and Cargo	3.8%
Compulsory Motor	36.5%
Other Motor	14.9%
General Liability	5.9%
Accident and Sickness	9.4%
Reinsurance	0.7%
Life and Health	5.2%
	100.0%

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. GRM has structured a reinsurance policy for insurance subsidiaries. The policy requires a minimum rating from an international rating agency for the reinsurers participating in the reinsurance programs. The minimum rating depends on contract length. The policy limits the number of reinsurers in a programme depending on the volume ceded and limits of cover. There are also limits on the maximum size of a loss ceded to a reinsurer depending on rating and contract length. Reinsurers rating as percentage of ceded premiums for 2007 and estimated figures for 2008 are as follows:

	2008	2007
AAA	1.9%	2.0%
AA	0.7%	1.5%
AA-	70.5%	65.2%
A+	13.2%	11.7%
A	0.6%	1.5%
A-	13.1%	17.2%
BBB+	0.0%	0.9%
	100.0%	100.0%

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

Combined ratio is the sum of the loss ratio and the expense ratio. After a period with high combined ratio, measures were taken in 2006 to improve the underwriting result. Combined ratio for 2007 is 99.5%. Due to high technical interest rate (9.6%) investment return from insurance activities is high and operating ratio in good order (86.3%). Improved combined ratio puts the insurance companies in a better position to meet decreasing interest rate in near future. Following is a table depicting the combined ratio for the Group's insurance subsidiaries over the last five years:

	2007	2006	2005	2004	2003
Loss ratio	77.4%	84.9%	82.0%	76.6%	72.6%
Operating expenses ratio	17.2%	22.4%	25.0%	26.2%	23.9%
Reinsurance cost ratio	4.9%	5.9%	8.0%	6.7%	5.9%
Investment income ratio	15.3%	18.2%	19.0%	23.0%	20.6%
Combined ratio	99.5%	113.3%	115.0%	109.5%	102.3%
Operating ratio	86.3%	95.9%	96.6%	89.1%	84.9%

33.10 Operational risk

Operational risk is the risk of loss or damage, direct or indirect, from insufficient or failed internal processes, people and systems, or from an external cause. The Group's policy is to identify and reduce possible operational risk factors in its operations in a cost-effective manner. The Group aims to continually increase overall risk awareness among employees and to encourage employees to be actively involved in finding ways to further reduce operational risk. Each business area is responsible for organizing and monitoring the operational risk inherent in their operations. The GRM assists the business areas to identify operational risk and develop control measures to manage it. GRM also assists in mapping and documenting business processes, thereby isolating and reducing risk related to them. This strategy reduces the occurrence of operational risk events, such as fraud, and minimises potential losses, it also helps in preparing for and managing future risk events.

IT risk is the risk of damage to the Group's value due to incomplete or inadequate processes and events related to information technology. The Group's IT strategy is: to provide its employees with the highest quality of information available in the most secure manner possible, to maintain an awareness between IT budget, quality and project duration and to manage and optimise business processes both in the Group's internal processes and interaction with external parties.
The GRM is in charge of identifying and responding to factors that may cause a failure in the confidentiality, integrity or availability of data and systems. The Group has in place an information security management system based on a model set forth in the ISO 27001 standard. The system has been reviewed by the FSA and the Icelandic Data Protection Authority.
GRM actively works towards minimizing the IT risk inherent in the Group's operations. In line with the IT strategy GRM consistently works towards enhancing data availability and data integrity, i.e. the assurance that data is consistent and correct. GRM monitors matters relevant to IT systems, information security and reliability.

Regular backups of the Group's data are kept in a secure, remote location, assuring no significant data loss in the case of unforeseen events. The backups are regularly tested for data integrity and restoration time.

Business continuity is important for the Group. Therefore Exista and its significant subsidiaries have in place a business continuity plan that has the purpose to ensure that key functions can be continued in situations of possible disruption. The plan is tested on a regular basis and updated at least annually.

Reputational risk is the risk of potential damage to a firm due to deterioration of its reputation. This damage can result in missed future opportunity, foregone (future) revenues, and decreased shareholder value, Exista's policy is to actively reduce the risk of possible loss directly related to deterioration of reputation and to be thoroughly prepared to deal with a potential crisis should it arise.

Exista's subsidiaries Lýsing, VÍS and Lífís all operate under licenses from the FSA. The FSA regulates these subsidiaries in accordance with the law and regulations by regular reporting and on-site audits and on occasion requests information outside the scope of the regular reporting. This exposes these subsiduaries to compliance risk which may involve being fined for non-compliance. To reduce this potential risk factor the GRM monitors adherence to regulations and reporting to the FSA.

The legal environment is set by the Act on insurance activities (no 60/1994), Act on insurance contracts (no 30/2004), Act on financial undertakings (no 161/2002), Act on official supervision of financial operation (no. 87/1998), regulations based on these acts and guidelines published by FSA. As a part of the European Economic Area Iceland has adopted the directives of the European Union on insurance and financial activities. The Icelandic Financial Supervisory Authority is a member of The Committee of European Banking Supervisors (CEBS) www.c-ebs.org, The Committee of European Securities Regulators (CESR) www.cesr-eu.org, The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) www.ceiops.org and The International Association of Insurance Supervisors www.iaisweb.org.

33.11 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

• the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

• the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

• the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

• the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

34. Subsidiaries and associated companies

Name of subsidiary	Incorporation	Ownership	Principal activity
Áskaup ehf.	Iceland	100.00%	Holding company
Dymbilturn ehf.	Iceland	100.00%	Holding company
Exafin B.V.	Netherlands	100.00%	Holding company
Exista B.V.	Netherlands	100.00%	Investments
Exista Holdings B.V.	Netherlands	100.00%	Holding company
Exista Invest ehf.	Iceland	100.00%	Investments
Exista Properties ehf.	Iceland	100.00%	Real-estate
Exista Trading ehf.	Iceland	100.00%	Investments
Exista UK Ltd.	United Kingdom	100.00%	Investments
Fasteignafélagid Jörfi ehf.	Iceland	100.00%	Real-estate
Flutningar ehf.	Iceland	100.00%	Holding company
Frásögn ehf.	Iceland	100.00%	Holding company
Holtasmári ehf.	Iceland	100.00%	Real-estate
Líftryggingarfélag Íslands hf.	Iceland	100.00%	Life insurance
Lýsing hf.	Iceland	100.00%	Leasing
Pera ehf.	Iceland	100.00%	Holding company
Pond Street Investments ehf.	Iceland	100.00%	Investments
Vátryggingarfélag Íslands hf.	Iceland	100.00%	Insurance
VÍS International Invest ehf.	Iceland	100.00%	Holding company
Öryggismidstöd Íslands hf.	Iceland	57.32%	Security

Name of associated company	Incorporation	Ownership	Principal activity
Árkaup ehf.	Iceland	35.70%	Holding company
Framtídarsýn hf.	Iceland	49.99%	Publishing
Haed 14 ehf.	Iceland	50.00%	Real-estate
Íslensk endurtrygging hf.	Iceland	28.80%	Insurance
Kaupthing banki hf.	Iceland	23.02%	Banking
Sampo Oyj.	Finland	19.98%	Financial services

35. Changes within Exista

In April 2007 Exista sold all of its shares in IGI Group, or 54.4% stake in the company. The sale had limited effect on Exista's income statement and balance sheet.

During 2007 Exista acquired 100% of the share capital in the real-estate companies Holtasmári ehf. and Fasteignafélagid Jörfi ehf. The consideration was satisfied with a cash payment EUR 36.8 million.

Acquisition of Holtasmári ehf. and Fasteignafélagid Jörfi ehf.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

Investment properties	68.0
Loans and accounts receivables	3.6
Other assets	0.1
Cash	0.0
Total assets	71.7
Deferred taxation	(2.3)
Borrowings	(25.5)
Other liabilities	(7.2)
Total liabilities	(35.0)
Net assets	36.8
Satisfied by:	
Cash payment	36.8

As permitted by IFRS 3, Business combinations, assessment of the fair value of the net assets is provisional up to one year from the date of acquisition.

If the acquisition had been completed on the first day of the financial year, the Group's operating profit for the period would have been EUR 1 million higher.

The operation of all acquired companies are integrated into the Company's current structure from the date of acquisition. Holtasmári ehf. and Fasteignafélagid Jörfi ehf. contributed EUR 3.9 million of revenue for the period between the date of acquisition and year end.

36. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to EUR 4.5 million as of 31 December 2007 (2006: EUR 3.9 million). Loans to members of the Board of Directors and their fully owned companies amounted to EUR 0 (2006: EUR 0).

Loans to subsidiaries amounted to EUR 930 million as of 31 December 2007. At year-end 2006, comparable amount was EUR 394 million.

37. Other matters

The Group has granted its employees and employees of subsidiaries guarantees relating to purchase of shares in Exista hf. in September 2006, at year-end 2007 the guarantees amounted to EUR 13 million (2006 EUR 14 million).

Customers guarantees of a subsidiary amounted to 35.7 million (2006: 30 million).

38. Events after the Balance Sheet date

There have been no material post Balance Sheet events which would require disclosure or adjustments to the Consolidated Financial Statements for the year 2007.

39. Approval of Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and CEOs and authorised for issue on 31 January 2008.

Unaudited information

Key Ratios

	31.12.2007	31.12.2006
Earnings per share (EPS) - cents	5.11	4.30
Return on equity	23.02%	27.10%
Price earnings (P/E)	4.29	6.52
Price to book (P/B)	1.04	1.36
Price pr. share in ISK	19.75	22.50
Equity ratio	29.57%	43.20%
Internal value of shares	19.65	16.59
Insurance operation:		
Combined ratio	99.50%	115.00%
Leasing operation:		
Ratio of provision to lending position at period-end	2.15%	0.82%

	2007	2006
EUR/ISK rates:		
Average exchange rate for the year	87.60	87.67
Year-end exchange rate	91.20	94.61