Milestone ehf.

Consolidated Financial Statements
for the year 2007
ISK

Milestone ehf.
Suðurlandsbraut 12
108 Reykjavík
Iceland

Reg. no. 640388-1109

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Report and Statement of the Board of Directors and the CEO

Opearations in the year 2007

The Consolidated Financial Statements of Milestone ehf. for the year 2007 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Consolidated Financial Statements comprise Milestone ehf. (Parent) and its subsidiaries (together referred to as the "Company").

The Company is a Nordic financial group comprising of majority owned financial institutions operating within the fields of insurance, banking and assets under management.

According to the income statement, after tax profits for the year amounted to ISK 21,322 million. The Company's equity at the end of 2007 amounted to ISK 69,513 million. The Company's equity ratio was 17.7% at year-end. As of 31 December 2007 the Company's total assets amounted to ISK 391,627 million.

At the end of 2007 the Parent's shareholders numbered four as in the beginning of the year. Three shareholders held more than 10% of outstanding shares each at year end 2007. They are Leiftri Ltd., with 44.6% share, Karl Wernersson with 28.2% share and Steingrímur Wernersson with 22.2% share. Leiftir Ltd. is fully owned by Karl Wernersson and Steingrímur Wernersson.

The Board of Directors recommends that ISK 2,000 million will be paid to shareholders as dividend in the year 2008.

Statement by the board of directors and the CEO

To the best of our knowledge, the consolidated financial statements of Milestone ehf. for the year 2007 give a true and fair view of the assets, liabilities, financial position and financial performance of the Company. Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the Chief Executive Officer gives a fair view of the development and performance of the Company's operations and its position and describes the principal risks and uncertainties faced by the Company.

The Board of Directors and the Managing Director have today discussed the annual consolidated financial statements of Milestone ehf. for the year 2007 and confirm them by means of their signatures.

Reykjavík, 14 February 2008.

Board of Directors:

Karl Wernersson

Steingrímur Wernersson

CEO:

Guðmundur Ólason

Independent Auditors’ Report

To the Board of Directors and Shareholders of Milestone ehf.

We have audited the accompanying consolidated financial statements of Milenstone ehf. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 misstatements, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 judgement, 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 principles 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 opinion.

Opinion

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

Reykjavík, 14 February 2008.

KPMG hf.

Sigurþór Ch. Guðmundsson

Margrét Guðjónsdóttir

Consolidated Income Statement for the year 2007

	Notes	2007	2006
Insurance premium	10	15.156	8.293
Net income from securities, associates and derivatives	8	25.728	25.998
Net income from associates		(4.342)	215
Fee and commission		4.004	0
Interest income	9	5.425	2.758
Sale of goods and services		8.170	2.748
Other revenue	11	2.288	1.494
Total revenues		56.429	41.506
Insurance claims	12	(12.441)	(8.035)
Operating expenses	13, 14	(12.266)	(4.099)
Cost of goods sold		(5.407)	(1.859)
Total expenses		(30.114)	(13.993)
Profit before financial expenses		26.315	27.513
Interest expenses	9	(10.881)	(5.728)
Net foreign exchange gain (loss)		4.749	(3.869)
Total financial expenses		(6.132)	(9.597)
Profit before income tax		**20.183**	**17.916**
Income tax	15,16	1.139	3.528
Profit for the year		**21.322**	**21.444**

Attributable to:

	Notes	2007	2006
Equity holders of the parent		21.264	20.295
Minority interest		58	1.149
Profit for the year		**21.322**	**21.444**

Earnings per share:

	Notes	2007	2006
Basic earnings per share (ISK)	17,18	7,74	7,48
Diluted earnings per share (ISK)	17,18	7,74	7,48

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Consolidated Balance Sheet as at 31 December 2007

	Notes	2007	2006
Assets:			
Cash and cash equivalents	19	45.654	5.475
Securities	20	39.029	75.706
Derivatives	21	1.627	2.378
Trade, receivables and other assets	22,23	18.467	10.098
Loans	24,25,26	63.040	11.651
Restricted cash	27	707	2.303
Securities - unit link		66.676	3.125
Reinsurance assets		4.117	1.645
Investment property	28	48.243	30.588
Investments in associates	29,30	9.888	4.265
Operating assets	31	4.135	1.530
Intangible assets	32	88.312	21.311
Deferred tax assets	40	1.732	0
Total assets		391.627	170.075

	Notes	2007	2006
Equity:	33		
Share capital		2.758	2.714
Share premium		6.970	6.014
Translation reserve		292	0
Retained earnings		55.819	34.855
Total equity attributable to equity holders of the parent		65.839	43.583
Minority interest		3.674	144
Total equity		69.513	43.727
Liabilities:			
Derivatives	21	1.722	1.999
Trade and other payables	34	16.852	13.589
Insurance contracts	35	46.620	22.713
Insurance contracts - unit link		68.023	3.125
Deposits from the customers	36	59.480	0
Borrowings related to investment properties	37,38,39	36.991	22.287
Other borrowings	37,38,39	87.409	60.414
Deferred income tax liability	40	5.017	2.221
Total liabilities		322.114	126.348
Total equity and liabilities		391.627	170.075

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Consolidated Statement of Changes in Equity for the year 2007

	Share capital	Share premium	Translation reserve	Retained earnings	**Equity holders of the Parent**	Minority interest	**Total equity**
Year 2006							
Equity as at 1.1.2006	2.714	6.014	0	14.860	**23.588**	2.245	**25.833**
Profit for the year				20.295	**20.295**	1.149	**21.444**
Dividends				(300)	**(300)**		**(300)**
Acquisition of minority interest					**0**	(3.319)	**(3.319)**
Minority investment in subsidiaries					**0**	69	**69**
Equity as at 31.12.2006	2.714	6.014	0	34.855	**43.583**	144	**43.727**
Year 2007							
Equity as at 1.1. 2007	2.714	6.014	0	34.855	**43.583**	144	**43.727**
Translation differences			292		**292**		**292**
Profit for the year				21.264	**21.264**	58	**21.322**
Total recognised profit for the year			292	21.264	**21.556**	58	**21.614**
Sale of own shares	44	956			**1.000**		**1.000**
Dividends				(300)	**(300)**		**(300)**
Minority investment in subsidiaries					**0**	3.472	**3.472**
Equity as at 31.12.2007	2.758	6.970	292	55.819	**65.839**	3.674	**69.513**

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Consolidated Statement of Cash Flows for the year 2007

	Notes	2007	2006
Cash flows from operating activities:			
Profit for the year		21.322	21.444
Adjustments for operating items	51	82.799	19.201
Cash from operations before interest and taxes		104.121	40.645
Dividends received		1.838	1.433
Interest received		3.551	261
Interest paid		(5.703)	(4.319)
Income tax paid		(242)	(120)
Net cash provided by operating activities		103.565	37.900
Cash flows from investing activities:			
Acquisition of subsidiary, net of cash acquired	7	(40.668)	132
Acquisition of minority interest		0	(9.500)
Acquisition of associates companies		(4.603)	(1.223)
Restricted cash, change		1.596	(177)
Acquisition of investment properties		(18.032)	(23.487)
Acquisition of operating assets		(2.425)	(231)
Proceeds from the sale of operating assets		(1.048)	22
Acquisition of intangible assets		(674)	(2)
Net cash used in investing activities		(65.854)	(34.466)
Cash flows from financing activities:			
Proceeds from the issue of share capital		1.000	0
Minority interest in issue of share capital in subsidiaries		0	47
Dividend paid to shareholders of parent company		(300)	(300)
Net cash provided by financing activities		700	(253)
Net increase in cash and cash equivalents		38.411	3.181
Cash and cash equivalents at 1 January		5.475	2.246
Effect of exchange rate fluctuations on cash held		1.768	48
Cash and cash equivalents at 31 December		45.654	5.475

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Notes

1. ## Reporting Entity

Milestone ehf. ("the Company") is a company domiciled in Iceland. The Companies' registered office is at Suðurlandsbraut 12 in Reykjavík, Iceland. The consolidated financial statements of Milestone ehf. as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries, together referred to as the “Group” and individually as "Group entities". Milestone ehf. is an investment company and the Company has listed bonds on the Iceland Stock Exchange.

2. ## Basis of preparation

Assets and liabilities in the Balance Sheet are presented in liquidity order which is considered more appropriate for the Group than current/non-current presentation. For each asset and liability item that combines amounts expected to be recoverd or settled after more than 12 months, a payment schedule is disclosed.

a. ### *Statement of compliance*

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

The financial statements were approved by the Board of Directors of Milestone ehf. on 14 February 2008.

b. ### *Basis of measurement*

The consolidated financial statements are prepared on the historical cost basis except for the following:
* derivative financial instruments are measured at fair value;
* securities are measured at fair value;
* investment properties in use are measured at fair value

c. ### *Functional and presentation currency*

The consolidated financial statements are presented in Icelandic Krona (ISK), which is the Company's functional currency. All financial information has been rounded to the nearest million.

d. ### *Use of estimates and judgements*

The preparation of the Consolidated Financial Statements in accordance with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities, as well as, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcome can later to some extend differ from the estimates and assumptions made.

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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in note 4q.

3. Accounting policies related to financial instruments

a. *Financial assets and liabilities*

(i) *Non-derivative financial assets and liabilities*

Non-derivative financial assets and liabilities in the Group´s balance sheet comprise securities, loans, trade and other receivables, cash and cash equivalents, restricted cash, borrowings, trade and other payables.

Non-derivative financial assets and liabilities are recognised initially at fair value plus, for assets and liabilities not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial assets and liabilities are measured as described below.

A financial asset and liability is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Loans and receivables are recognised on the date that they are originated. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise unrestricted balances held with financial institutions and highly liquid financial assets with original maturities of less than three months that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.
Restricted cash comprise of cash collaterals held by counterparties as guarantee for debts.

Securities
Securities in the balance sheet are financial assets classified as at fair value through profit or loss and designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. These include assets held to match insurance contracts. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables
Loans and receivables are financial assets, other than derivative agreements, which carry fixed, calculated payments and are not listed in an active market. Loans and receivables consist of leasing agreements that the company grants to customers for real estates, machines and equipments and loans, such as debentures.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to owership of an asset to the lessee, the arrangement is presented within loans.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to orginate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Receivables arising from insurance contracts are also classified in this catagory. The company´s loans are capitalized with accrued interests, indexation and exchange rate differences at period end. Indexed loans are recognised based on the indices that came into effect at the beginning of January and currency indexed loans are recognised based ont the exchange rate of the relevant currency at end of December.

Loans and receivables are derecognised when cash flow can no longer be obtained or when the group has transferred for the most part risk and gains from the ownership.

a. contd.:

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) *Derivative financial assets and liabilities*

The Group holds derivative financial instruments for investment purposes but also to hedge its interest rate risk and currency risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for through profit or loss. Derivatives with positive fair value at the reporting date are recognised as assets in the balance sheet while derivatives with negative fair value are recognised as liabilities. The Group does not apply hedge accounting.

b. ***Investment income***

(i) *Net income from securities and derivatives*

Net income from investments in securities and derivatives comprise gain on sale of shares, changes in fair value of investments, changes in fair value of derivatives other than foreign exchange gain or loss and interest income or expense and dividend income. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(ii) *Interest income and expense*

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(ii) contd.:

Interest income and expense presented in the income statement include:

*interest on financial assets and liabilities at amortised cost on an effective interest rate basis *interest on investment securities on an effective interest basis
*the effective portion of qualifying hedge derivatives designated in a cash flow hedge if the hedged item is recorded in interest income / expense
*fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

(iii) *Net foreign exchange (loss) gain*

Net foreign exchange (loss) gain comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies and gains and losses arising from derivatives hedging the foreign currency risk.

(iv) *Fee and commission*

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

c. *Impairment of financial assets*

Financial assets not at fair value throught profit and loss are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicate that one or more loss events have occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.
Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

d. *Fair value measurement principles for financial instruments*

(i) *Securities*

Securities in the balance sheet consist of investments in equity and debt securities. The fair value of listed securities is based on their quoted market bid prices at the reporting date without any deduction for estimated future selling costs.

If a quoted market price is not available on a stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the investment is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, if possible, using applicable price / earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

(ii) *Derivatives*

The fair value of forward exchange contracts are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(iii) *Loans, trade and other receivables*

The fair value of loans (financial leases included), trade and other receivables, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iv) *Non-derivative financial liabilities*

The fair value of non-derivative financial liabilities which is determined for disclosure purpose is based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

e. *Insurance contracts*

As part of its insurance operations the Group's entities issue contracts that transfer both financial and insurance risk from the customers to the Group.

(i) *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 financial loss due to accident, death or damage.

e. contd.:

(i) *Insurance contracts - definition, contd..*

Insurance risk is all risk, other than financial risk, that is moved from the policyholder to the insurer such as financial loss due to accident, death or damage.

(ii) *Insurance contracts - classification*

The Group's insurance contracts are categorized in two groups according to how long the insurance risk lasts and whether the contract are fixed or changeable.

Property and casualty insurance:
Insurance contracts that are categorized as in this section are liability insurance, casualty insurance and property insurance.

Liability and casualty insurance contracts protect the 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 could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business.

Life insurance:
These contracts insure events associated with human life, for example death or survival over a long duration. Premiums are recognised as income in the period they are issued and claims paid are recognised as expense in the period that the insured event incurres.

(iii) *Investments with investments risk of the life assurance policyholders*

Investments with the investment risk of life assurance policyholders are financial assets owned by the Company that the policyholders have selected and carry the investment risk in accordance with the life 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.

(iv) *Technical provisions*

The Group assesses, at the end of the fiscal year, whether the recorded insurance liability can carry out the Group's estimated obligations by assessing future cash flows of the insurance liability. All changes in the insurance liability are recognized in the income statement. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

(v) *Reinsurance contracts*

Reinsurance contracts are made in order to reduce the Group's risks. Reinsurance contracts can be either proportional or carry the entire risk in the case of a damage exceeding a fixed damage cost.

Claims on reinsurers due to premiums and claims are recognized as reinsurance assets. The claims concern the reinsurers share in 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 recognized in the income statement at the time of the renewal of the reinsurance contracts.

(vi) *Insurance operations*

Premiums recognised as income comprise the premiums contracted during the period including premiums transferred from last years but excluding next periods premiums, which are recognised as premium reserve. Premium reserve in the balance sheet forms the part of premiums due to insurance risk during the period which belongs to the next fiscal year.

Claims recognised in the income statements are the period's claims including increases due to claims of previous fiscal year. Claims reserved in the balance sheet are the total amount of reported but unpaid claims as well as actuarial provision for claims occurred but unreported.

f. *Share capital*

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to issue of shares and share options are recognised as a deduction from equity, net of any tax effect.

Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs net of tax, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount receved is recognised as an increase in equity, and the resulting surplus of deficit on the transaction is transferred to/from share premium/retained earnings.

Dividends
Dividends are recognised as a decrease in equity in the period in which they are declared.

4. Other accounting policies

a. *Basis of consolidation*

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) *Minority interests*

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the Company. The Group accounts for transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Company that is recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised immediately as income in the income statement.

(iii) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. The consolidated financial statements include the Group's share of profit or loss of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) *Transactions eliminated on consolidation*

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. *Foreign currency*

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement. Acquisition of operating assets in foreign currencies is translated at the foreign exchange rate at the date of the transaction. Operating expenses and sales in foreign currencies are translated at the foreign exchange rate at the date of the transaction.

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at the average exchange rate.

Foreign currency translation differences are recognised directly in equity in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation differences is transferred to profit or loss.

c. *Investment property*

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as operating asset, its fair value at the date of reclassification becomes its cost for subsequent accounting.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group´s investment property portfolio every year. The fair value are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm´s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of investment property under development is measured at the cost of the development.

d. ***Operating assets***

(i) *Measurement*

Buildings and other operating assets are stated at cost less accumulated depreciation and impairment losses.

(ii) *Subsequent costs*

The cost of replacing part of an item of operating asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of operating assets. The estimated useful lives are as follows:

Buildings	25-50 years
Other operating assets	3-5 years

The depreciation method, useful lives and residual values are reassesed at the reporting date.

e. ***Intangible assets***

(i) *Goodwill and intangible assets with indefinite useful lives*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill and trademarks with indefinite useful lives are stated at cost less accumulated impairment losses.

(ii) *Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(iv) *Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and trademarks, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Customer relationships	12 years
Software	3 years
Patents	5-10 years

f. ***Impairment of non-financial assets***

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g. ***Inventories***

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

h. ***Provisions***

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

j. ***Revenue***

(i) *Goods sold*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) *Rental income*

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

k. ***Lease payments***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

l. ***Income tax***

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m. ***Earnings per share***

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

n. ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group´s business and geographical segments. The Group´s primary format for segment reporting is based on business segments. The business segments are determined based on the Group´s management and internal reporting structure.

o. ***New standards and interpretations effective in 2007***

IFRS 7 *Financial Instruments: Disclosures* and the Amendment to *IAS 1 Presentation of Financial Statements : Capital Disclosures* became mandatory for the Group's 2007 financial statements. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

IFRIC 7 – 10 became mandatory for the Group's 2007 financial statements but their adoption had no impact on the Group's 2007 Financial Statements.

p. ***New standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group´s 2009 financial statements, will require the disclosure of segment information based on the internal reports. Currently the Group presents segment information in respect of its business and geographical segments (see note 6). Under the management approach, the Group will present segment information in respect of Banking, Insurance and Asset Management.

IAS 1 Presentation of Financial Statements (revised in 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. IAS 1 (Revised 2007) sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for the Group's 2009 financial statements if endorsed by the EU, is expected to impact the presentation of the Group's income statement and statement of changes in equity.

Revised IAS 23 Borrowing cost removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If endorsed by the EU, the revised IAS 23 will become mandatory for the Group's 2009 financial statements and will have no effect on the Group's accounting policies.

p. ***New standards and interpretations not yet adopted, contd.:***

IFRS 3 Business Combinations (revised in 2008) and amended *IAS 27 Consolidated and Separate Financial Statements* introduce changes to the accounting for business combinations and for non-controlling (minority) interest. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:
- IFRS 3 (2008) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
- The definition of a business combination has been revised to focus on control;
- The definition of a business has been amended;
- Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;
- Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- Disposals of equity interests while retaining control are accounted for as equity transactions;
- New disclosures are required.

IFRS 3 (revised in 2008) and amended *IAS 27* will become mandatory for the Group’s 2010 Financial Statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The Group has not yet determined the potential effect of IFRS 3 (revised in 2008) and amended IAS 27 on the consolidated financial statements.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group´s 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group´s 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group´s 2009 financial statements, is not expected to have a material impact on the consolidated financial statements.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contribution in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group´s 2008 financial statements if endorsed by the EU, with retrospective application required. The Group has not yet determined the potential effect of the interpretation on the consolidated financial statements.

q. ## *Accounting estimates and judgements*

Key sources of estimation uncertainty

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one pf the Group's critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims.

Determination of fair values of financial instruments

As indicated in note 3a the Group's securities and derivatives are measured at fair value on the balance sheet. For the majority of these financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques, including reference to the current fair values of other instruments that are substantially the same, subject to the appropriate adjustments.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows etc.) and therefore, cannot be determined with precision.

Determination of impairment of financial assets

Financial assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3c. The assessment for impairment is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

Determination of impairment of non - financial assets

Non-financial assets, such as goodwill and intangible assets, are regularily valuated for impairment. The assessment for impairment is based upon management's estimates of future cash flows and discount rate.

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgenets made in applying the Group's accounting policies include:

Classification of securities

The Group's accounting policies provide scope for securities to be designated at fair value through profit or loss. By making this designation, the management has determined that it has met the necessary criteria as set out in accounting policy 3a(i).

Deferred tax assets

Deferred tax assets are recognised for most deductible temporary differences and for tax losses carried forward to the extent that it is probable that taxable profit will be available against which they can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Segment reporting

5. Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure and is divided into two segments. Banking and asset management (AM) activities comprises the operation of Askar Capital hf., Banque Invik in Luxembourg and Invik Funds in Sweden. Insurance activities comprise the operations of Sjóvá-Almennar tryggingar hf. and the Swedish insurance companies Moderna Insurance life and non-life. Retail activities and other investments are classified as other operations. Invik & Co AB in Sweden is part of the consolidated income statement from 1 July 2007. Moderna life and non-life, Banque Invik and Invik Funds are part of the subgroup Invik & Co AB.

In presenting information on the basis of geographical segment, segments revenue and assets is based on the geographical location and of assets.

Inter-segment pricing is determined on an arms's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments	Banking and AM	Insurance		Investments and other		Eliminations		Consolidated	
	2007	2007	2006	2007	2006	2007	2006	2007	2006
External revenue:									
Insurance premium	0	15.156	8.293	0	0			15.156	8.293
Net income from securities and derivatives	(2.031)	2.150	9.524	21.267	16.689			21.386	26.213
Fee and commission income	2.694	665	0	645	0			4.004	0
Interest income	3.325	1.091	2.362	1.009	396			5.425	2.758
Other revenue	615	4.615	1.321	5.228	2.921			10.458	4.242
External revenue	4.603	23.677	21.500	28.149	20.006	0	0	56.429	41.506
Intersegment revenue:									
Insurance premium	0	32	20	0	0	(32)	(20)	0	0
Net income from securities and derivatives	0	2.769	222	0	(222)	(2.769)		0	0
Fee and commission income	778	101	0	0	0	(879)		0	0
Interest income	0	94	0	0		(94)		0	0
Intersegment revenue	778	2.996	242	0	(222)	(3.774)	(20)	0	0

Amounts are in ISK million

Notes, contd.:

5. contd.:

	Banking and AM	Insurance		Investments and other		Eliminations		Consolidated	
	2007	2007	2006	2007	2006	2007	2006	2007	2006
Segment result before financial expenses	2.263	4.448	11.020	17.432	16.495	2.172	(2)	26.315	27.513
Financial expenses								(6.132)	(9.597)
Income tax								1.139	3.528
Profit for the year								21.322	21.444
Segment assets	127.163	254.446	99.794	10.018	70.281			391.627	170.075
Segment liabilities	88.250	184.470	65.007	49.394	61.341			322.114	126.348
Capital expenditure	2.074	2.540	187	219	7.779	0	0	4.833	7.966
Depreciation, amortisation and impairment	2.165	1.437	49	107	347	0	0	3.709	396

Geographical segments

	Sweden	Iceland		Other regions		Eliminations		Consolidated	
	2007	2007	2006	2007	2006	2007	2006	2007	2006
External revenue	5.589	42.638	40.679	8.202	827	0	0	56.429	41.506
Segment assets	159.917	98.948	139.797	132.762	30.278	0	0	391.627	170.075
Capital expenditure	2.717	1.868	7.966	248	0	0	0	4.833	7.966

Amounts are in ISK million

Financial assets and liabilities

Accounting classifications and fair values

6. The table below sets out the Group´s classification of each class of financial assets and liabilities, and their fair values.

2007	Trading	Designated at fair value	Loans and receivable	Financial liabilities at amortised cost	Total carrying amount	Fair value
Assets:						
Cash and cash equivalents	0	8.035	37.619	0	45.654	45.654
Securities	36	38.993	0	0	39.029	39.029
Derivatives	1.038	589	0	0	1.627	1.627
Trade receivables and other assets	0	0	17.776	0	17.776	17.776
Loans	0	0	63.040	0	63.040	63.040
Restricted cash	0	0	707	0	707	707
Total	1.074	47.617	119.142	0	167.833	167.833
Liabilities:						
Derivatives	1.090	632	0	0	1.722	1.722
Trade and other payables	0	9.031	0	7.821	16.852	16.852
Deposits from customers	0	0	0	59.480	59.480	59.480
Borrowings	0	0	0	124.400	124.400	124.400
Total	1.090	9.663	0	191.701	202.454	202.454

2006	Trading	Designated at fair value	Loans and receivable	Financial liabilities at amortised cost	Total carrying amount	Fair value
Assets:						
Cash and cash equivalents	0	0	5.475	0	5.475	5.475
Securities	0	75.706	0	0	75.706	75.706
Derivatives	2.378	0	0	0	2.378	2.378
Trade receivables and other assets	244	0	9.187	244	9.675	9.675
Loans	0	0	11.651	0	11.651	11.651
Restricted cash	0	0	2.303	0	2.303	2.303
Total	2.622	75.706	28.616	244	107.188	107.188
Liabilities:						
Derivatives	1.999	~~0~~	~~0~~	~~0~~	~~1.999~~	~~1.999~~
Trade and other payables	0	0	0	13.589	13.589	13.589
Borrowings	0	0	0	82.701	82.701	82.701
Total	1.999	0	0	96.290	98.289	98.289

Amounts are in ISK million

Changes within the Group

7. In the beginning of the year a subsidiary of Milestone merged with two other companies and the operation of the investment bank Askar Capital was formally founded. The merger increased Milestone's net assets and liabilities of ISK 2,1 billion. Following the merger the capital of Askar Capital was increased by the nominal value of ISK 450 million for ISK 9,0 billion. The capital increase lead up to increase in intangible assets of ISK 1,5 billion. At the end of September Milestone's share in Askar Capital hf. is 82.04%.

   In April the company sold in excess of 13% of it's total 20% shares in Glitnir bank hf. The Group still owns 7% share in Glitnir bank through it's ownership in the associated company Þáttur International ehf.

   A Swedish subsidiary of Milestone, Racon Holdings AB, announced, on the 26 of April 2007, cash tender offer to acquire all shares in the Swedish insurance and investment banking company Invik & Co. AB. The acquisition needed the approval of financial supervisory authorities in Sweden, Luxembourg and the Netherlands. After the acceptance period, 29 of June 2007, Milestone holds 97.9% of the share capital which represents 99.0% of the voting power. All approvals were obtained late in June 2007 and Invik is therefore just a part of Milestone's income statement from 1 July 2007. If the acquisition had occured on 1 January 2007, it is estimated that consolidated revenue would have been ISK 10,390 higher and the profit for the period would have been ISK 1,482 million higher.

   The acquisition of Invik and the establishment of Askar Capital had the following effects on the Group's balance sheet:

	Askar	Invik	Total
Cash and cash equivalents	64	27.047	27.111
Securities	72	75.204	75.276
Loans, trade and other receivables	241	42.398	42.639
Intangible assets	0	4.021	4.021
Other assets	4	6.576	6.580
Insurance contracts (life and non-life)	0	(73.821)	(73.821)
Borrowings	0	(50.699)	(50.699)
Other liabilities	(215)	(12.393)	(12.608)
Net identified assets and liabilities	166	18.333	18.499
Goodwill on acquisition or merger	1.884	49.402	51.286
Issued shares in subsidiary	(2.050)	0	(2.050)
Cash aquired	0	(27.047)	(27.047)
Consideration satisfied by cash	0	40.688	40.688

   The allocation of the goodwill on cash-generating units has not been finalized.

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Investment income

8. Net income from securities, associates and derivatives is specified as follows:

	2007	2006
Gain on the sale of shares	19.196	9.315
Dividend	1.838	1.433
Change in fair value of investment properties	1.286	0
Change in fair value of securities and derivatives	3.408	15.250
Net income from securities, associates and derivatives	25.728	25.998

Net interest income

9. Interest income and expense are specified as follows:

Interest income

Cash and cash equivalents	2.587	336
Securities	58	0
Derivatives	862	0
Restricted cash	117	0
Trade receivables and other assets	446	10
Loans	1.355	2.412
Total	5.425	2.758

Interest expense

Cash and cash equivalents	98	4
Derivatives	64	0
Trade and other payables	39	0
Borrowings	10.680	5.724
Total	10.881	5.728

Operating income

10. Insurance premium is specified as follows:

Premiums written	16.851	9.628
Reinsure's share	(2.859)	(1.082)
Change in the gross provision for unearned premiums	628	(176)
Change in the provision for unearned premiums, reinsure's share	536	(77)
Net insurance premium	15.156	8.293

11. Other revenue is specified as follows:

Rental	1.839	958
Other revenue	449	536
Total other revenue	2.288	1.494

Amounts are in ISK million

Operating expenses

12. Insurance claims are specified as follows:

	2007	2006
Claims paid	11.768	6.770
Claims paid, reinsure's share	(1.486)	(204)
Change in the provision for claims	1.550	1.932
Change in the provision for claims, reinsures' share	609	(463)
Net insurance claims	12.441	8.035

13. Operating expenses specify as follows:

	2007	2006
Salaries and salary-related expenses, note 14	5.218	1.930
Depreciation, amortisation and impairment losses	2.245	396
Other operating expenses	4.803	1.773
Total operating expenses	12.266	4.099

14. Salaries and related expenses are specified as follows:

	2007	2006
Salaries and remuneration	4.214	1.617
Defined contribution pension plan expense	310	146
Other salary-related expenses	694	167
Salaries and salary-related expenses total	5.218	1.930
Average number of full time equivalent employees	1.040	532

Salaries to CEO of the parent company amounted to ISK 55 million. Salaries paid to board of directors amounted to ISK 35 million.

Income tax

15. Income tax recognised in the income statement is specified as follows:

	2007	2006
Current tax payable	(172)	(66)
Adjustments for prior periods	0	278
Deferred income tax	1.311	3.316
Total income tax in income statement	1.139	3.528

16. Reconciliation of effective tax rate:

	2007	2007	2006	2006
Profit before income tax		20.183		17.916
Income tax using the Company's domestic tax rate	18,0%	(3.633)	18,0%	(3.225)
Tax exempt revenue	3,5%	697	0,6%	113
Deferral of gains from sale of equity investments against tax base of investments in subsidiaries	18,5%	3.727	36,9%	6.611
Non-deductible expenses	(0,2%)	(43)	0,0%	(1)
Other items	1,9%	391	(0,9%)	30
Effective tax rate	5,6%	1.139	19,7%	3.528

Amounts are in ISK million

Earnings per share

17. The calculation of basic earnings per share was based on the profit attributable to the equity holders of the Company and a weighted average number of shares outstanding during the year. Diluted earnings per share is the same as basic earnings per share as the company has not entered into share options agreements or convertible loan agreements.

	2007	2006
Profit for the year	21.264	20.295
Weighted average number outstanding shares during the year	2.747	2.714
Basic and diluted earnings per share	7,74	7,48

18. Weighted average number outstanding shares is calculated as follows:

Issued shares at 1 January	2.714	2.714
Effect of own shares sold	33	0
Weighted average number of outstanding shares at 31 December	2.747	2.714

Cash and cash equivalents

19. Cash and cash equivalents are specified as follows:

Cash	10	8
Bank deposits	45.644	5.467
Total cash and cash equivalents	45.654	5.475

Securities

20. Securities are specified as follows:

Listed securities:	Fair value 2007	Fair value 2006
Listed securities on the Icelandic Stock Exchange:		
Glitnir Bank hf.	0	68.683
Actavis Group hf.	0	11.767
365 hf.	0	2.465
Teymi hf.	3.438	2.311
Landsbanki Íslands hf.	1.206	1.204
Other companies	1.222	2.956
Total listed shares on the Iceland Stock Exchange	5.866	89.386
Affiliated shares	1.192	586
Bonds	738	694
Listed on the Icelandic Stock Exchange	7.796	90.666
Listed securities on foreign stock exchanges:		
D. Carnegie & Co AB	9.697	0
Other companies	2.549	132
Affiliated shares	14.540	220
Listed bonds	1.524	0
Total listed on foreign stock exchanges	28.310	352
Total listed securities	36.106	91.018

Amounts are in ISK million

20. Securities are specified as follows, contd.:

	Fair value 2007	Fair value 2006
Unlisted securities:		
Unlisted shares	9.554	1.099
Unlisted bonds	36	250
Total unlisted securities	9.590	1.349
Total securities	45.696	92.367
Thereof derivatives, see note 21	(6.667)	(16.661)
Fair value of securities at year end	39.029	75.706

Derivatives

21. Net assets in derivatives are specified as follows:

	2007	2006
Equity derivatives - receivable, see note 20	6.667	16.661
Equity derivatives - payable	(7.473)	(15.035)
Net position of equity derivatives	(806)	1.626
Net position of other derivatives	711	(1.247)
Net position of derivatives	(95)	379
Derivatives - assets in the balance sheet	1.627	2.378
Derivatives - liabilities in the balance sheet	(1.722)	(1.999)
Net position of derivatives	(95)	379

Derivatives with positive values, 31 December 2007

	Less than 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total
Currency forwards with positive values	387	173	0	0	560
Currency swaps with positive values	142	346	0	0	488
Interest rate swaps with positive values	0	0	579	0	579
Total derivatives with positive values	529	519	579	0	1.627

Derivatives with negative values, 31 December 2007

	Less than 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total
Currency forwards with negative values	1.110	176	0	0	1.286
Currency swaps with negative values	132	0	0	0	132
Equity derivatives with negative values	0	304	0	0	304
Total derivatives with negative values	1.242	480	0	0	1.722

Amounts are in ISK million

21. contd.:

Derivatives with positive values, 31 December 2006

	Less than 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total
Currency forwards with positive values	483	0	0	0	483
Equity derivatives with positive values	1.895	0	0	0	1.895
Total derivatives with positive values	2.378	0	0	0	2.378

Derivatives with negative values, 31 December 2006

	Less than 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total
Currency forwards with negative values	0	0	575	0	575
Currency swaps with negative values	0	0	1.246	0	1.246
Equity derivatives with negative values	0	0	178	0	178
Total derivatives with negative values	0	0	1.999	0	1.999

Trade and other receivables

22. Trade and other receivables are specified as follows:

	2007	2006
Insurance receivables	4.968	2.062
Trade receivables	1.480	340
Prepaid expenses	2.128	378
Sale of shares receivables	1.229	4.135
Inventories	690	667
Other receivables	8.352	2.628
Allowance for bad debt	(380)	(112)
Total trade and other receivables	18.467	10.098

23. Changes in the provision for losses on trade and other receivables are specified as follows:

Provision at 1 January	112	121
Actual losses during the year	(23)	(43)
Provision for the year	289	34
Exchange rate difference	2	0
Provision at 31 December	380	112

Loans

24. Loans are specified as follows:

Loans to financial institutions	45.465	4.540
Leasing contracts	15.327	0
Other loans	2.969	7.111
Provision on loans	(721)	0
	63.040	11.651

Amounts are in ISK million

25. Repayments of loans are specified as follows:

	2007	2006
Repayments in 2008	42.665	8.339
Repayments in 2009	7.922	1.861
Repayments in 2010	3.850	1.198
Repayments in 2011	2.719	253
Later	5.884	0
Total loans	63.040	11.651

26. Changes in the provision on loans are specified as follows:

Balance at the beginning of the year	0	0
Provision through business combinations	197	0
Impairment on loans during the year	884	0
Exchange rate difference on translation	4	0
Write-offs during the period	(364)	0
Payment of loans previously written off	0	0
Provision on loans at the end of the period	0	0
	721	0

Restricted cash

27. Bank deposits amounting to ISK 707 million (2006: 2,303) are restricted to use for the Group at year end. These deposits are cash held by financial institutions as pledged for debts.

Investment property

28. Investment property is specified as follows:

Investment property	2007	2006
Balance at 1 January	22.815	0
Acquisitions	7.580	22.815
Change in fair value	1.286	0
Exchange rate difference	(351)	0
Balance at 31 December	31.330	22.815
Investment property under development		
Balance at 1 January	7.773	0
Acquisitions	10.204	7.773
Change in fair value	0	0
Exchange rate difference	(1.064)	0
Balance at 31 December	16.913	7.773
Investment property total	48.243	30.588

Investment property is comprised of office buildings in Belgium, Germany and France whereas investment property under construction are largely luxury apartments in metropolitian areas in Europe, Asia and the US.

Amounts are in ISK million

Associates

29. The carrying amounts of the Group's investments in associates and share of profit (loss) are specified as follows:

	Share 2007	Share of profit (loss) 2007	Carrying amounts 2007	Share of profit (loss) 2006	Carrying amounts 2006
Fjárfestingarfélagið Máttur ehf.	50,0%	(277)	2.468	(31)	1.833
Skeggi ehf.	49,9%	(1.108)	1.792	0	0
Þáttur International ehf.	48,8%	(2.793)	2.574	0	0
Other companies		(164)	3.054	246	2.432
Associates companies total		(4.342)	9.888	215	4.265

30. Summary of financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

2007	Share	Total assets	Total liabilities	Profit / (loss)
Fjárfestingarfélagið Máttur ehf.	50,0%	14.476	9.551	(904)
Skeggi ehf.	49,9%	3.621	0	(2.238)
Þáttur International ehf.	48,8%	26.328	17850	(3.236)
Other companies		22.633	7.075	(281)
Associates companies total		67.058	16.626	(6.659)

Operating assets

31. Operating assets are specified as follows:

Gross carrying amount	Buildings	Other operating assets	Total
Balance at 1.1.2006	191	350	541
Acquisitions through business combinations	777	763	1.540
Additions during the year	27	204	231
Sales and disposals during the year	(35)	(54)	(89)
Balance at 31.12.2006	960	1.263	2.223
Acquisitions through business combinations	759	587	1.346
Additions during the year	1.938	828	2.766
Sales and disposals during the year	(838)	(295)	(1.133)
Exchange rate difference on translation	0	16	16
Balance 31.12.2007	2.819	2.399	5.218
Depreciation and impairment losses			
Balance at 1.1.2006	24	91	115
Acquisitions through business combinations	60	418	478
Depreciation	8	120	128
Sales and disposals during the year	(2)	(26)	(28)
Balance 31.12.2006	90	603	693
Acquisitions through business combinations	0	363	363
Depreciation	20	296	316
Sales and disposals during the year	(66)	(233)	(299)
Exchange rate difference on translation	0	10	10
Balance 31.12.2007	44	1.039	1.083

Amounts are in ISK million

31. Operating assets are specified as follows:

Carrying amounts	Buildings	Other operating assets	Total
1.1.2006	167	259	426
31.12.2006	870	660	1.530
31.12.2007	2.775	1.360	4.135

Intangible assets

32. The Group's intangible assets are specified as follows:

Gross carrying amount	Goodwill	Trademark	Customer relationships	Other intangible assets	Total
Balance at 1 January 2006	6.905	1.706	2.504	0	11.115
Acquisitions through business combination	3.766	696	0	19	4.481
Acquisitions of minority interest	3.682	976	1.433	2	6.093
Additions during the year	0	0	0	0	0
Balance at 31 December 2006	14.353	3.378	3.937	21	21.689
Acquisitions through business combination	64.495	0	0	3.403	67.898
Additions during the year	0	0	0	422	422
Exchange rate difference on translation	161	0	39	18	218
Balance at 31 December 2007	79.009	3.378	3.976	3.864	90.227
Amortisation and impairment losses					
Balance at 1 January 2006	0	0	104	0	104
Acquisitions through business combination	0	0	0	6	6
Amortisation	0	0	267	1	268
Balance 31.12.2006	0	0	371	7	378
Acquisitions through business combination	0	0	375	374	749
Amortisation	0	0	690	82	772
Exchange rate difference on translation	0	0	14	2	16
Balance at 31 December 2007	0	0	1.450	465	1.915
Carrying amounts					
1.1.2006	6.905	1.706	2.400	0	11.011
31.12.2006	14.353	3.378	3.566	14	21.311
31.12.2007	79.009	3.378	2.526	3.399	88.312

Amortisation charge

The amortisation are allocated to operating expenses in income statement.

Amounts are in ISK million

32. The Group's intangible assets are specified as follows:

Impairment test

At the end of the year impairment tests were performed on the Group's goodwill and trademarks. The present value of estimated future cash flows is used to decide if impairment losses have occurred. In the present value calculations, an interest rate is used that reflects the weighted average of cost of capital, or the cost of debt and equity allowed for income tax effects. If the fair value of goodwill, which is the present value of future cash flows, is lower than the carrying amount the difference is charged to the income statement. According to the outcome of the impairment tests, performed at year-end 2007, the Group's goodwill has not suffered impairment losses.

Cash flows were projected based on the next years business plan and expected growth in the next 4 years. Cash flows for a future period are extrapolated using a constant growth rate. Management believes that a constant growth rate of 5% a year is close to the expected inflation for the period.

The anticipated annual revenue growth rate in cash flows projection was 3.5% - 10.0% for the years 2008-2012.

The discount rate of 15%-18% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the companies weighted average cost of capital.

The allocation of goodwill in relation to the acquisition of Invik & Co AB (ISK 49,402 million) to cash-generating units has not been finalized. The aggregated carrying amounts of goodwill is allocated to each segment as follows:

	2007	2006
Insurance	19.016	10.525
Banking and asset management	6.007	0
Other	4.584	3.828
Unallocated in relation to the acquisition of Invik & Co AB	49.402	0
Total	79.009	14.353

Equity

33. ***Issued capital***

The company's capital stock amounted to ISK 2,857 million at year-end 2007 and 2006 according to the company's articles of association. The holders of shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the company. The company sold own shares at a nominal value of ISK 44 million during the year 2007 for ISK 1,000 million. Share capital according to the balance sheet amounted to ISK 2,758 million at the end of the year, share capital is specified as follows:

	Amounts	Ratio
Total issued shares at the end of the year according to the balance sheet	2.758	96,5%
Own shares	99	3,5%
Share capital according to the Articles of Association	2.857	100,0%

Dividend

The company paid diviend of ISK 300 million to shareholders 2007 (2006: ISK 300 million).

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held as reserve which can not be paid out as dividend to shareholders.

Amounts are in ISK million

Trade and other payables

34. Trade and other payables are specified as follows:

	2007	2006
Trade payables	3.148	1.989
Remaining purchase price of investment properties	4.380	7.099
Other payables	9.324	4.501
Total trade and other payables	16.852	13.589

Insurance contracts

35. The insurance contracts is specified as follows:

31 December 2007

	Life	Non-life	Other	Total
Insurance contracts (total):				
Claims reported and loss adjustment expenses	874	23.453	3.460	27.787
Claims incurred but not reported	1.430	3.193	514	5.137
Claims outstanding, total	2.304	26.646	3.974	32.924
Bonuses and premium provisions	53	318	0	371
Life assurance provision	39	0	0	39
Provision for unearned premiums	441	10.759	2.086	13.286
Insurance contracts, total	2.837	37.723	6.060	46.620
Reinsures' share:				
Claims reported and loss adjustment expenses	627	1.404	430	2.461
Claims incurred but not reported	1.076	381	0	1.457
Claims outstanding, total	1.703	1.785	430	3.918
Life assurance provision	24	0	0	24
Provision for unearned premiums	53	94	6	153
Reinsures' share, total	1.780	1.879	436	4.095
Own insurance contracts (net):				
Claims reported and loss adjustment expenses	247	22.049	3.030	25.326
Claims incurred but not reported	354	2.812	514	3.680
Claims outstanding, total	601	24.861	3.544	29.006
Bonuses and premium provisions	53	318	0	371
Life assurance provision	15	0	0	15
Provision for unearned premiums	388	10.665	2.080	13.133
Own insurance contracts (net), total	1.057	35.844	5.624	42.525

31 December 2006

	Life	Non-life	Other	Total
Insurance contracts (total):				
Claims reported and loss adjustment expenses	332	16.448	0	16.780
Claims incurred but not reported	110	1.149	0	1.259
Claims outstanding, total	442	17.597	0	18.039
Bonuses and premium provisions	42	278	0	320
Provision for unearned premiums	475	3.879	0	4.354
Insurance contracts, total	959	21.754	0	22.713

Amounts are in ISK million

35. contd.:

	Life	Non-life	Other	Total
Reinsures' share:				
Claims reported and loss adjustment expenses	207	1.040	0	1.247
Claims incurred but not reported	57	62	0	119
Claims outstanding, total	264	1.102	0	1.366
Provision for unearned premiums	175	79	0	254
Reinsures' share, total	439	1.181	0	1.620
Own insurance contracts (net):				
Claims reported and loss adjustment expenses	125	15.408	0	15.533
Claims incurred but not reported	53	1.087	0	1.140
Claims outstanding, total	178	16.495	0	16.673
Bonuses and premium provisions	42	278	0	320
Provision for unearned premiums	300	3.800	0	4.100
Own insurance contracts (net), total	520	20.573	0	21.093

Borrowings

36. Deposits by customers are specified by type as follows:

	2007 Carrying amount	2006 Carrying amount
Financial and institutions	6.558	0
Households	9.544	0
Corporations and housing corporations	43.378	0
Total deposits by customers	59.480	0

37. Borrowings are specified by type as follows:

	2007	2006
Borrowings for Investment properties	36.991	22.287
Other borrowings	87.409	60.414
Total borrowings	124.400	82.701

38. Borrowings are specified as follows:

	Currency	Year of maturity	Nominal interest rate	2007 Carrying amount	2006 Carrying amount
Bank loan	ISK	2008-2037	10,3%	43.108	37.018
Bank loan	EUR	2008-2010	6,2%	58.821	25.727
Bank loan	CHF	2008-2011	4,3%	7.496	10.982
Bank loan	JPY	2008-2010	2,6%	4.322	3.660
Bank loan	GBP	2008-2011	9,3%	2.646	3.297
Bank loan	SEK	2008-2011	6,4%	5.048	1.327
Bank loan	USD	2008-2010	7,1%	2.919	
Other currencies				40	690
Borrowings				124.400	82.701

Amounts are in ISK million

39. Repayment of borrowings are specified as follows:

	2007	2006
Repayments in 2008	64.257	20.027
Repayments in 2009	3.004	22.451
Repayments in 2010	21.051	1.652
Repayments in 2011	21.671	17.062
Repayments in 2012	13.767	881
Repayments in 2013	10	19.758
Subsequent repayments	640	870
Borrowings	124.400	82.701

Deferred income tax liability

40. The deferred income tax (assets) liability is specified as follows:

	Deferred tax assets	Deferred tax liability	Total
Deferred income tax (assets) liability 1 January 2007	0	(2.221)	(2.221)
Additions through business combination	598	(3.617)	(3.019)
Income tax (expenses) recognised in income statement	1.089	50	1.139
Income tax payable	0	783	783
Exchange rate difference on translation	45	(12)	33
Deferred income tax (assets) liability 31 December 2007	1.732	(5.017)	(3.285)

The deferred income tax liability is attributable to the following items:

	Deferred tax assets 2007	2006	Deferred tax liability 2007	2006	Net deferred tax liability 2007	2006
Securities	0	0	(1.883)	(1.774)	(1.883)	(1.774)
Derivatives	0	0	110	(85)	110	(85)
Loans, trade receivables	0	0	(119)	(12)	(119)	(12)
Operating assets	0	0	(175)	(128)	(175)	(128)
Other items	1.732	0	(2.950)	(223)	(1.218)	(223)
	1.732	0	(5.017)	(2.222)	(3.285)	(2.222)

At 31 December 2007 deferred tax liability amounting to ISK 3,727 million (2006: 6,394 million) is not recognised for temporary differences of ISK 20,706 million (2006: 35,522 million) related to an investment in subsidiaries because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

When the Group pays dividends to its shareholders, it is required to pay a portion of the dividends to taxation authorities on behalf of shareholders, i.e. withholding tax. The amount paid to taxation authorities is charged to equity as a part of the dividends.

Amounts are in ISK million

Financial risk management

41. *Overview*

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk
- insurance risk

This note presents information about the Group´s exposure to each of the above risks, the Group´s objectives, plicies and processes for measuring and managing risk, and the Group´s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group´s risk management policies are established to identify and analyse the risks faced by the Group, to set approprate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group´s activities. The Goup, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The frame for asset allocation is determined by the Group´s management who sets the outline for the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored on intraday bases by the Group´s employees.

The Group maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment strategy. The Group´s investment portfolio comprises quoted and non-quoted equity and debt investments.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. The Group´s management looks to minimize this risk factor by only entering agreements with solid and well known institutions in addition to closely monitoring the credit risk on an ongoing basis.

Transactions involving derivative financial instruments are usually with counterparties with whom the Group has signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over vechicles, machinery and property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

42. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2007	2006
Cash and cash equivalents	45.654	5.475
Available-for-sale financial assets	0	225
Financial assets at fair value through profit or loss	39.029	75.706
Securities total	39.029	75.931
Derivatives	1.213	2.378
Forward exchange contracts used for hedging:		
Assets	414	0
Derivatives total	1.627	2.378
Trade and other receivables	17.777	9.431
Loans	63.040	11.651
Total financial assets	167.127	104.866

43. ***Liquidity risk***

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The risk management of the Group mitigates the liquidity by assuring adequate liquidity through unforeseen changes in funding sources or market disruption. The Group´s financial instruments include investments in unlisted equity investments and derivative contracts traded over-the-counter, which are not traded in an organised public market and which generally may be illiquid. As a result, the Group may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the credit-worthiness of any particular issuer.

To mitigate this risk the Group has a policy of minimum available cash at any given time and in addition to that, the Group´s listed financial investments, which represent large part of the total assets, are considered to be readily realisable as they are all listed on stock exchanges.

The breakdown by contractual maturity of assets and liabilities:

31 December 2007	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Assets:							
Cash	45.623	31	0	0	0	0	45.654
Securities	18.958	4.317	504	2.108	2.572	10.570	39.029
Derivatives	0	1.452	176	0	0	(1)	1.627
Trade receivables and other assets	1.801	9.868	2.215	0	0	4.583	18.467
Loans	8.225	6.948	27.056	17.429	3.381	1	63.040
Restricted cash	0	479	23	0	0	205	707
Reinsurance assets	0	205	361	248	161	3.142	4.117
Investment prop.	0	0	0	47.137	0	1.106	48.243
Total	74.607	23.300	30.335	66.922	6.114	19.606	220.884

Amounts are in ISK million

43. contd.:

31 December 2007	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Liabilities:							
Derivatives	0	1.552	170	0	0	0	1.722
Trade payable	1.590	9.897	5.108	0	97	160	16.852
Insurance contr.	0	3.146	6.535	8.303	5.405	23.231	46.620
Dep. from customers	36.022	3.019	20.232	207	0	0	59.480
Borrowings	44	42.097	21.907	59.709	643	0	124.400
Total	37.656	59.711	53.952	68.219	6.145	23.391	249.074
Assets-liabilities	36.951	(36.411)	(23.617)	(1.297)	(31)	(3.785)	(28.191)

31 December 2006

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Assets:							
Cash	5.475						5.475
Securities	63.426	102	152	884	1.987	9.155	75.706
Derivatives	0	2.378	0	0	0	0	2.378
Trade receivables and other assets	942	5.235	3.254	0	0	667	10.098
Loans	0	0	2.792	8.859	0	0	11.651
Restricted cash	0	2.303	0	0	0	0	2.303
Reinsurance assets	0	358	452	521	314	0	1.645
Investment prop.	0	0	0	30.588	0	0	30.588
Total	69.843	10.376	6.650	40.852	2.301	9.822	139.844

31 December 2006

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Liabilities:							
Derivatives	0	1.999	0	0	0	0	1.999
Trade payable	0	6.489	7.100	0	0	0	13.589
Insurance contr.	0	3.856	4.984	8.654	5.219	0	22.713
Borrowings	0	9.647	10.382	42.045	20.627	0	82.701
Total	0	21.991	22.466	50.699	25.846	0	121.002
Assets-liabilities	69.843	(11.615)	(15.816)	(9.847)	(23.545)	9.822	18.842

44. ***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group´s income or the calue of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Amounts are in ISK million

44. ***Market risk, contd.:***

The Group's strategy on the management of market risk is driven by the Group's investment objective. The Group's market risk is managed on a daily basis by the employees in accordance with policies and procedures in place. The Group's overall market positions are monitored on a monthly basis, or in some cases more frequently, by the board of directors.

45. ***Currency risk***

The Group entities may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic kronas (ISK).

The Group's total net currency balance is monitored on daily basis and traded as any other calculated financial position.

The breakdown of assets and liabilities by currency:

31 December 2007	ISK	USD	EUR	SEK	JPY	Other	Total
Assets:							
Cash	6.168	9.331	14.650	13.060	1.271	1.174	45.654
Securities	10.945	3.147	564	20.138	4.044	191	39.029
Derivatives	4.013	(660)	73	24	(931)	(892)	1.627
Trade receivables and other assets	10.898	1.444	2.007	2.673	995	450	18.467
Loans	11.120	4.523	8.750	5.025	6.689	26.933	63.040
Restricted cash	384	10	205	0	7	101	707
Securities-unit link ...				66.676			66.676
Reinsurance assets	975	8	0	2.455		679	4.117
Investment prop.	143	9.620	37.835	0		645	48.243
Investm. in ass.	7.599	244	1.597	171	200	77	9.888
Operating assets	3.860	4	0	271			4.135
Intangible assets	24.825		2.557	60.930			88.312
Deferred tax asset	464		89	1.179			1.732
Total	81.394	27.671	68.327	172.602	12.275	29.358	391.627
Liabilities and equity:							
Derivatives	1.040	244	72	299		67	1.722
Trade	4.575	5.070	3.611	3.085	5	506	16.852
Insurance contr.	23.462	2.234	341	17.209		3.374	46.620
Insurance contr.							0
unit linked	3.201			64.822			68.023
Dep.from customers	0	16.858	9.684	9.796	521	22.621	59.480
Borrowings	43.171	2.919	57.564	6.408	5.880	8.458	124.400
Deferred tax liability	1.674		451	2.892			5.017
Total equity	69.513		0	0			69.513
Total	146.636	27.325	71.723	104.511	6.406	35.026	322.114
Net Balance Sheet position	(65.242)	346	(3.396)	68.091	5.869	(5.668)	69.513

Amounts are in ISK million

45. contd.:

31 December 2006

Assets:	ISK	USD	EUR	SEK	JPY	Other	Total
Cash	2.849	815	1.256	3	543	9	5.475
Securities	78.479		220			132	78.831
Derivatives	2.378						2.378
Trade receivables							0
and other assets	9.873					225	10.098
Loans	9.961				1.375	315	11.651
Restricted cash	2.303						2.303
Reinsurance assets	1.645						1.645
Investment prop.	310	7.773	22.505				30.588
Investm. in ass.	3.239		615			411	4.265
Operating assets	1.530						1.530
Intangible assets	21.311						21.311
Total	133.878	8.588	24.596	3	1.918	1.092	170.075

Liabilities and equity	ISK	USD	EUR	SEK	JPY	Other	Total
Derivatives	1.999						1.999
Trade	6.490		7.099				13.589
Insurance contr.	22.713						22.713
Insurance contr.							0
unit linked	3.125						3.125
Borrowings	37.018	3.297	25.727	1.327	3.660	11.672	82.701
Deferred tax liability	1.823		398				2.221
Total equity	73.168	3.297	33.224	1.327	3.660	11.672	126.348
Net Balance							
Sheet position	60.710	5.291	(8.628)	(1.324)	(1.742)	(10.580)	43.727

The following significant exchange rates applied during the year:

ISK	Average rate		Spot rate	
			31.12.	31.12.
	2007	2006	2007	2006
EUR 1	87,35	87,47	90,95	94
SEK 1	9,44	9,46	9,66	10,42
USD 1	63,86	69,61	61,85	71,66
CHF 1	53,19	55,6	54,96	58,71
JPY 1	0,54	0,6	0,55	0,6

A 10% weakening of the Icelandic Krona against the above currencies at year end 2007 would have increased equity and post-tax profit by ISK 6,464 million (2006: ISK -1,698 million). This analysis asumes that all other variables, in particular interest rates, remain constant.

Amounts are in ISK million

46. ***Interest rate risk***

The majority of the Group’s financial assets are non-interest-bearing. Interest-bearing financial assets reprice in the short-term, no longer than twelve months. As a result, the Group is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates when it comes to assets. The Group is however exposed to interest risk from interest bearing liabilities and that risk is mitigated by active risk management. Any excess cash and cash equivalents of the Group are invested in short-term commercial paper or reverse repurchase agreements with the term to maturity no longer than one month.

Interest bearing assets (liabilities) specify as follows:

31 December 2007	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 year	Total
Assets:					
Financial assets at fair value	2.536	348	5.986	9.917	18.787
Loans and other receivables	17.112	21.602	13.640	3.381	55.735
Cash and cash equivalent	45.624	30	0		45.654
Total interest-bearing assets	65.272	21.980	19.626	13.298	120.176
Liabilities:					
Borrowings	42.141	21.907	59.709	643	124.400
Deposits from customers	39.044	20.229	207	0	59.480
Total interest-bearing liabilities	81.185	42.136	59.916	643	183.880
Net interest-rate exposure	(15.913)	(20.156)	(40.290)	12.655	(63.704)
31 December 2006					
Total assets	7.778	0	13.148	0	20.926
Total liabilities	(9.647)	(10.383)	(42.045)	(20.626)	(82.701)
Net interest-rate exposure	(1.869)	(10.383)	(28.897)	(20.626)	(61.775)

47. A change of 1% in interest rates at the reporting date would have increased (decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	2007		2006	
	Increase	Decrease	Increase	Decrease
Profit	(613)	613	(618)	618
Equity	(613)	613	(618)	618

Price risk

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in equity prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Group´s financial assets are carried at fair value with fair value changes recognised in the income statement, all changes in market conditions will directly affect investment income.

Amounts are in ISK million

47. Contd.:

Market fluctuations are monitored by the Group's management on intraday basis which enables the Group to react quickly to any changes in the market.

The investment portfolio of Sjóvá-Almennar tryggingar hf., Sjóvá Almennar líftryggingar hf and Moderna Forsekringer AB.is also monitored by the Icelandic and Swedich Financial Supervisory Authority (FSA), but the portfolio of the respective subsidiaries is structured to ensure that capitalisation is adequate and financial strength is maintained at all times.

48. *Insurance risk*

The customer base of the insursance operation is well diversified and the company is not reliant on any individual client or customer. The insurance companies in the Group are Sjóvá-Almennar tryggingar hf. and Moderna Forsekringer AB and their subsidiaries.

In order to limit the underwriting risk of the insurance operation, part of the risk is transferred to reinsurers. The amount of risk that the companies carry for their own account is determined with respect to the financial strength of each of the insurance company and the nature of the risk.

49. *Capital management*

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Policies have been implied regarding equity ratio and loan to value ratios. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. In the year 2007 the Group's return on capital was 48.7% (2006: 83%).

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group´s management of capital during the year.

Operating leases

Leases as lessee

50. Non-cancellable operating lease rentals are payable as follows:

	2007	2006
Less than one year	173	26
Between one and five years	325	36
More than five years	76	3
	574	65

Statement of cash flows

51. Profit for the year, in the statement of cash flows is adjusted for items specified here below in the statement of cash flows:

Indexation and foreign exchange loss (gain)	(2.619)	4.368
Deferred income tax, change	(1.477)	(3.312)
Other operating items	638	545
Change in loans	(18.224)	(7.040)
Change in securities	46.284	(32.855)
Change in deravative	473	3.250
Change in borrowings	50.790	48.329
Change in inventories	(28)	(12)
Change in receivables	(169)	(3.792)
Change in payables	7.131	9.720
	82.799	19.201

Pledged assets

52. Pledged assets at year end amounted to ISK 108 billion. In addition shares in the subsidiaries Sjóvá - Almennar tryggingar hf. and Invik & Co AB are pledged. The book value of the shares amounted to ISK 98 billion at year end.

Off balance Sheet Information

53. Obligations and contingent liabilities are specified as follows:

	2007	2006
Guarantees	584	7.000
Credit commitments	30.168	0
Deposited securities	44.943	0
Letter of credits	12.750	0
	88.445	7.000

Commitments

54. The Group has committed itself to further investments in several investment projects. Total payments, if all the projects will develop, could be up to ISK 6,000 million.

A subsidiary of the Group has at year end committed itself to buy liquid assets in the amount of ISK 8,000 million. The transaction is contingent on the agreement of Financial Supervisory Authorities.

Amounts are in ISK million

Subsequent events

55. Part of the Group's assets are in listed companies. Subsequent to 31 December 2007 the OMXI 15 index, which is a stock market index consisting of the 15 most valuable share listed in Iceland has decreased by 16.9% as at13th of February 2008.

The exchange rate of the Icelandic Krona has decreased by 7.6% as at 13th of February 2008.

Related parties

56. The Group has a related party relationship with its shareholders, subsidiaries, associates, board of directors of the parent company and managing director. Company's owned by board shareholders are also considered related parties.

During the year 2007 the Group made transactions with related parties. These transactions were priced on an arm's length basis. Net outstanding loans and receivables at year end amounted to ISK 8,240 million (2006: none). Interest income to related parties in the income statements amounts to ISK 441 million and interest expenses ISK 46 million (2006: 184).

Group entities

57. Main Group entities are specified as follows:

Company:	Country	Currency	Ownership interest 2007	2006
Sjóvá-Almennar tryggingar hf.	Iceland	ISK	100,0%	100,0%
Sjóvá-Almennar líftryggingar hf.	Iceland	ISK	100,0%	100,0%
SJ1 ehf.	Iceland	ISK	100,0%	100,0%
SJ2 ehf.	Iceland	ISK	100,0%	-
SJ-Fasteignir	Iceland	ISK	100,0%	100,0%
Askar Capital hf.	Iceland	ISK	82,0%	-
Avant hf.	Iceland	ISK	100,0%	100,0%
Racon Holdings AB	Sweden	SEK	100,0%	-
Invik & co. AB	Sweden	SEK	100,0%	-
Aktie-Ansvar AB	Sweden	SEK	100,0%	-
Moderna Fonder AB	Sweden	SEK	100,0%	-
Moderna Försäkringar Liv AB	Sweden	SEK	100,0%	-
Moderna Försäkringar Sak AB	Sweden	SEK	100,0%	-
Banque Invik S.A.	Luxembourg	EUR	100,0%	-
Þáttur eignarhaldsfélag ehf.	Iceland	ISK	100,0%	100,0%
L&H eignarhaldsfélag ehf.	Iceland	ISK	100,0%	100,0%
Lyf og heilsa hf.	Iceland	ISK	100,0%	100,0%

Financial Ratios

58. The Group's principal financial ratios:

	2007	2006
Return on equity	48,8%	91,5%
Equity ratio	17,7%	25,7%
Internal value of shares	23,87	16,06

Amounts are in ISK million